



Mary Taylor, CPA
Auditor of State

VILLAGE OF MCARTHUR
VINTON COUNTY

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Mary Taylor, CPA
Auditor of State

Village of McArthur
Vinton County
124 West Main Street
McArthur, Ohio 45651

To the Village Council:

As you are aware, the Auditor of State's Office (AOS) must modify the *Independent Accountants' Report* we provide on your financial statements due to an interpretation from the American Institute of Certified Public Accountants (AICPA). While AOS 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. Our Report includes an adverse opinion relating to GAAP presentation and measurement requirements, but does not imply the amounts the statements present are misstated under the non-GAAP basis you follow. The AOS report also includes an opinion on the financial statements you prepared using the cash basis and financial statement format the AOS permits.

Mary Taylor

Mary Taylor, CPA
Auditor of State

August 8, 2008

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Village of McArthur
Vinton County
124 West Main Street
McArthur, Ohio 45651

To the Village Council:

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, 2007 and 2006. 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 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 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 require 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 Villages 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, 2007 and 2006 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, 2007 and 2006, or its changes in financial position or cash flows, where applicable for the years then ended.

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, as of December 31, 2007 and 2006, 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 August 8, 2008, 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.

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

Mary Taylor, CPA
Auditor of State

August 8, 2008

**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, 2007**

	<u>Governmental Fund Types</u>		Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Property and Local Taxes	\$82,437	\$152,655	\$235,092
Intergovernmental	98,290	419,055	517,345
Charges for Services		68,052	68,052
Fines, Licenses and Permits	38,787	1,984	40,771
Earnings on Investments	3,097	584	3,681
Miscellaneous	4,700	100,525	105,225
	<u>227,311</u>	<u>742,855</u>	<u>970,166</u>
Total Cash Receipts			
Cash Disbursements:			
Current:			
Security of Persons and Property	59,589	140,126	199,715
Public Health Services	537		537
Leisure Time Activities		41,593	41,593
Basic Utility Service		20,313	20,313
Transportation		151,722	151,722
General Government	117,580	5,873	123,453
Debt Service:			
Redemption of Principal	14,561		14,561
Interest and Fiscal Charges	5,007		5,007
Capital Outlay		419,951	419,951
	<u>197,274</u>	<u>779,578</u>	<u>976,852</u>
Total Cash Disbursements			
Total Cash Receipts Over/(Under) Cash Disbursements	<u>30,037</u>	<u>(36,723)</u>	<u>(6,686)</u>
Other Financing Receipts / (Disbursements):			
Sale of Fixed Assets		9,101	9,101
Other Financing Sources	5,083	587	5,670
	<u>5,083</u>	<u>9,688</u>	<u>14,771</u>
Total Other Financing Receipts / (Disbursements)			
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	35,120	(27,035)	8,085
Fund Cash Balances, January 1	<u>99,395</u>	<u>200,161</u>	<u>299,556</u>
Fund Cash Balances, December 31	<u>\$134,515</u>	<u>\$173,126</u>	<u>\$307,641</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 PROPRIETARY AND FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Proprietary Fund Type	Fiduciary Fund Type	Totals (Memorandum Only)
	Enterprise	Agency	
Operating Cash Receipts:			
Charges for Services	\$478,947	\$0	\$478,947
Miscellaneous	36,008		36,008
Total Operating Cash Receipts	<u>514,955</u>	<u>0</u>	<u>514,955</u>
Operating Cash Disbursements:			
Personal Services	208,677		208,677
Contractual Services	101,466		101,466
Supplies and Materials	34,919		34,919
Other	15,329		15,329
Total Operating Cash Disbursements	<u>360,391</u>	<u>0</u>	<u>360,391</u>
Operating Income/(Loss)	<u>154,564</u>	<u>0</u>	<u>154,564</u>
Non-Operating Cash Receipts:			
Earnings on Investments	1,421		1,421
Other Debt Proceeds	79,472		79,472
Other Non-Operating Cash Receipts	1,100	43,236	44,336
Total Non-Operating Cash Receipts	<u>81,993</u>	<u>43,236</u>	<u>125,229</u>
Non-Operating Cash Disbursements:			
Redemption of Principal	53,576		53,576
Interest and Other Fiscal Charges	6,197		6,197
Other Non-Operating Cash Disbursements	79,472	44,428	123,900
Total Non-Operating Cash Disbursements	<u>139,245</u>	<u>44,428</u>	<u>183,673</u>
Net Receipts Over/(Under) Disbursements	97,312	(1,192)	96,120
Fund Cash Balances, January 1	<u>61,392</u>	<u>4,534</u>	<u>65,926</u>
Fund Cash Balances, December 31	<u>\$158,704</u>	<u>\$3,342</u>	<u>\$162,046</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, 2006**

	<u>Governmental Fund Types</u>			<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Cash Receipts:				
Property and Local Taxes	\$80,585	\$142,696	\$	\$223,281
Intergovernmental	75,645	116,287	119,988	311,920
Charges for Services	108	64,920		65,028
Fines, Licenses and Permits	34,936	1,807		36,743
Earnings on Investments	673	644		1,317
Miscellaneous	6,000	12,210		18,210
Total Cash Receipts	<u>197,947</u>	<u>338,564</u>	<u>119,988</u>	<u>656,499</u>
Cash Disbursements:				
Current:				
Security of Persons and Property	48,353	106,535		154,888
Public Health Services	539			539
Leisure Time Activities		26,558		26,558
Basic Utility Service		20,444		20,444
Transportation		114,194		114,194
General Government	97,773	8,196		105,969
Debt Service:				
Redemption of Principal	8,400			8,400
Interest and Fiscal Charges	5,365			5,365
Capital Outlay		13,231	119,988	133,219
Total Cash Disbursements	<u>160,430</u>	<u>289,158</u>	<u>119,988</u>	<u>569,576</u>
Total Cash Receipts Over/(Under) Cash Disbursements	<u>37,517</u>	<u>49,406</u>	<u>0</u>	<u>86,923</u>
Other Financing Receipts / (Disbursements):				
Proceeds from Sale of Public Debt:				
Other Debt Proceeds	4,850			4,850
Transfers-In	2,524	59,654		62,178
Transfers-Out	(59,654)	(2,524)		(62,178)
Other Financing Sources	10,873	2,910		13,783
Total Other Financing Receipts / (Disbursements)	<u>(41,407)</u>	<u>60,040</u>	<u>0</u>	<u>18,633</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	<u>(3,890)</u>	<u>109,446</u>	<u>0</u>	<u>105,556</u>
Fund Cash Balances, January 1	<u>103,285</u>	<u>90,715</u>	<u>0</u>	<u>194,000</u>
Fund Cash Balances, December 31	<u><u>\$99,395</u></u>	<u><u>\$200,161</u></u>	<u><u>\$0</u></u>	<u><u>\$299,556</u></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 PROPRIETARY AND FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Proprietary Fund Type	Fiduciary Fund Type	Totals (Memorandum Only)
	Enterprise	Agency	
Operating Cash Receipts:			
Charges for Services	\$453,261	\$0	\$453,261
Fines, Licenses and Permits	\$2,557		2,557
Miscellaneous	57,382		57,382
Total Operating Cash Receipts	<u>513,200</u>	<u>0</u>	<u>513,200</u>
Operating Cash Disbursements:			
Personal Services	221,996		221,996
Contractual Services	115,499		115,499
Supplies and Materials	24,227		24,227
Other	21,023		21,023
Total Operating Cash Disbursements	<u>382,745</u>	<u>0</u>	<u>382,745</u>
Operating Income/(Loss)	<u>130,455</u>	<u>0</u>	<u>130,455</u>
Non-Operating Cash Receipts:			
Earnings on Investments	553		553
Other Non-Operating Cash Receipts	47,433	39,585	87,018
Total Non-Operating Cash Receipts	<u>47,986</u>	<u>39,585</u>	<u>87,571</u>
Non-Operating Cash Disbursements:			
Redemption of Principal	105,566		105,566
Interest and Other Fiscal Charges	13,980		13,980
Other Non-Operating Cash Disbursements	19,375	41,339	60,714
Total Non-Operating Cash Disbursements	<u>138,921</u>	<u>41,339</u>	<u>180,260</u>
Net Receipts Over/(Under) Disbursements	39,520	(1,754)	37,766
Fund Cash Balances, January 1	<u>21,872</u>	<u>6,288</u>	<u>28,160</u>
Fund Cash Balances, December 31	<u><u>\$61,392</u></u>	<u><u>\$4,534</u></u>	<u><u>\$65,926</u></u>

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

**VILLAGE OF MCARTHUR
VINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006**

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, Ohio (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. Accounting Basis

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. The Village recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as the Auditor of State prescribes or permits.

C. Cash

The Village invests all available funds in interest bearing checking accounts 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 private-purpose 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.

**VILLAGE OF MCARTHUR
VINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(Continued)**

1. Summary of Significant Accounting Policies (Continued)

D. Fund Accounting (Continued)

2. Special Revenue Funds (Continued)

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

Homeland Security Fund – This fund received a Homeland Security Grant in 2007 for the purchase of a pumper truck for fire protection.

3. Capital Project 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

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.

VILLAGE OF MCARTHUR
VINTON COUNTY

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(Continued)

1. Summary of Significant Accounting Policies (Continued)

E. Budgetary Process (Continued)

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund level of control, and appropriations may not exceed estimated resources. The Village Council must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. 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 individual commitments are made. Encumbrances outstanding at year end are canceled, and reappropriated in the subsequent year. The Village did not encumber all commitments required by Ohio law.

A summary of 2007 and 2006 budgetary activity appears in Note 3.

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:

	<u>2007</u>	<u>2006</u>
Demand deposits	\$469,687	\$365,482

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

**VILLAGE OF MCARTHUR
VINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(Continued)**

3. Budgetary Activity

Budgetary activity for the years ending December 31, 2007 and 2006 follows:

2007 Budgeted vs. Actual Receipts

<u>Fund Type</u>	<u>Budgeted Receipts</u>	<u>Actual Receipts</u>	<u>Variance</u>
General	\$354,498	\$232,394	(\$122,104)
Special Revenue	604,876	752,543	147,667
Enterprise	528,788	596,948	68,160
Total	<u>\$1,488,162</u>	<u>\$1,581,885</u>	<u>\$93,723</u>

2007 Budgeted vs. Actual Budgetary Basis Expenditures

<u>Fund Type</u>	<u>Appropriation Authority</u>	<u>Budgetary Expenditures</u>	<u>Variance</u>
General	\$367,075	\$197,274	\$169,801
Special Revenue	711,906	779,578	(67,672)
Enterprise	538,272	499,636	38,636
Total	<u>\$1,617,253</u>	<u>\$1,476,488</u>	<u>\$140,765</u>

2006 Budgeted vs. Actual Receipts

<u>Fund Type</u>	<u>Budgeted Receipts</u>	<u>Actual Receipts</u>	<u>Variance</u>
General	\$139,258	\$216,194	\$76,936
Special Revenue	356,237	401,128	44,891
Capital Projects	13,312	119,988	106,676
Enterprise	602,022	561,186	(40,836)
Total	<u>\$1,110,829</u>	<u>\$1,298,496</u>	<u>\$187,667</u>

2006 Budgeted vs. Actual Budgetary Basis Expenditures

<u>Fund Type</u>	<u>Appropriation Authority</u>	<u>Budgetary Expenditures</u>	<u>Variance</u>
General	\$231,452	\$220,084	\$11,368
Special Revenue	398,074	291,682	106,392
Capital Projects	13,312	119,988	(106,676)
Enterprise	623,297	521,666	101,631
Total	<u>\$1,266,135</u>	<u>\$1,153,420</u>	<u>\$112,715</u>

**VILLAGE OF MCARTHUR
VINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(Continued)**

4. Property Tax

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

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

Tangible personal property tax is assessed by the property owners, who must file a list of such property to the County by each April 30.

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

5. Debt

Debt outstanding at December 31, 2007 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Ohio Water Development Authority Loan #2341	\$566,102	2.00%
Ohio Water Development Authority Loan #4682	79,872	4.12%
General Obligation Note	94,040	4.75%
Total	<u>\$740,014</u>	

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 \$1,962,606. The loans 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.

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 loans in semiannual installments of \$3,694, including interest, over 20 years. The scheduled payment amount below assumes that \$100,000 will be borrowed. The OWDA will adjust scheduled payments to reflect any revisions in amounts the Village actually borrows. Water receipts collateralize the loan. The Village has agreed to set utility rates sufficient to cover OWDA debt service requirements.

The General Obligation Note was issued in 2006 in the amount of \$115,812 to pay off a line of credit. The note is to be repaid in semiannual installments of \$9,784, including interest, with a final payment due March, 31, 2013.

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

**VILLAGE OF MCARTHUR
VINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(Continued)**

5. Debt (Continued)

Year ending December 31:	OWDA Loan #2341	OWDA Loan #4682	General Obligation Note
2008	\$119,546	\$7,389	\$19,568
2009	119,546	7,389	19,568
2010	119,546	7,389	19,568
2011	119,546	7,389	19,568
2012	119,546	7,389	19,568
2013-2017		36,943	9,784
2018-2022		36,943	
2023-2027		36,943	
Total	<u>\$597,730</u>	<u>\$147,774</u>	<u>\$107,624</u>

6. Retirement Systems

The Village's full-time Police Officers belong to the 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' benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2007 and 2006, OP&F participants contributed 10% of their wages. For 2007 and 2006, the Village contributed to OP&F an amount equal to 19.5% of full-time police members' wages. For 2007 and 2006, OPERS members contributed 9.5 and 9%, respectively, of their gross salaries and the Village contributed an amount equaling 13.85 and 13.7%, respectively, of participants' gross salaries. The Village has paid all contributions required through December 31, 2007.

7. Risk Management

Commercial Insurance

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 defendant in a lawsuit. Although management cannot presently determine the outcome of these suits, management believes that the resolution of these matters will not materially adversely affect the Village's financial condition.

Amounts grantor 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.



Mary Taylor, CPA

Auditor of State

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

Village of McArthur
Vinton County
124 West Main Street
McArthur, Ohio 45651

To the Village Council:

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, 2007 and 2006, and have issued our report thereon dated August 8, 2008, wherein we noted the Village followed accounting practices the Auditor of State prescribes rather 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 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 opinion 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider significant deficiencies.

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

We consider the following deficiencies described in the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting: 2007-002 through 2007-004.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the Village's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. However, of the significant deficiencies described above, we believe findings number 2007-002 through 2007-004 are also material weaknesses.

We also noted certain internal control matters that we reported to the Village's management in a separate letter dated August 8, 2008.

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 instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying Schedule of Findings as items 2007-001 through 2007-002.

We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the Village's management in a separate letter dated August 8, 2008.

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

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



Mary Taylor, CPA
Auditor of State

August 8, 2008

**VILLAGE OF MCARTHUR
VINTON COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2007 AND 2006**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2007-001

Noncompliance Citation

Ohio Rev. Code Section 5705.41(D)(1) prohibits a subdivision or taxing entity from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance.

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in Sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

1. "Then and Now" Certificate – If the fiscal officer can certify that both at the time that the contract or order was made ("then"), and at the time that the fiscal officer is completing the certification ("now"), that 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 Village can authorize the drawing of a warrant for the payment of the amount due. The Village has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution.

Amounts of less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance 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 Village.

2. Blanket Certificate – Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.

3. Super Blanket Certificate – The Village may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

**VILLAGE OF MCARTHUR
VINTON COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2007 AND 2006
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2007-001 (Continued)

Noncompliance Citation - Ohio Rev. Code Section 5705.41(D)(1) (Continued)

During testing, we were unable to determine if the Fiscal Officer properly certified the availability of funds prior to making commitments for 18% of the disbursements tested for 2007 and 15% of the disbursements tested in 2006 due to the lack of the Fiscal Officer's signature on the purchase order or the inability to locate the purchase order. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

Unless the Village uses the exceptions noted above, prior certification is not only required by statute but is also a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the Township's funds exceeding budgetary spending limitations, we recommend the Township Fiscal Officer certify that funds are or will be available prior to obligation by the Village. When prior certification is not possible, "then and now" certification should be used and the Village Council should approve "then and now" certificates over \$3,000 by resolution within thirty days of receiving them.

We recommend the Village Fiscal Officer certify purchases to which Ohio Rev. Code Section 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language Ohio Rev. Code Section 5705.41(D) requires to authorize disbursements. The Village Fiscal Officer should sign the certification prior to the Village incurring a commitment, and only when the requirements of Ohio Rev. Code Section 5705.41(D) are satisfied. The Village Fiscal Officer should post approved purchase orders to the proper appropriation code to reduce the available appropriation.

Officials' Response:

All purchase orders are now signed.

FINDING NUMBER 2007-002

Noncompliance Citation and Material Weakness

Ohio Admin. Code Section 117-2-02(D) states, in part, all local public offices may maintain accounting records in a manual or computerized format. The records used 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) Cash journal, which typically contains the following information: The amount, date, receipt number, check number, account code, purchase order number, and any other information necessary to properly classify the transaction.
- (2) Receipts ledger, which typically assembles and classifies receipts into separate accounts for each type of receipt of each fund the public office uses. The amount, date, name of the payor, purpose, receipt number, and other information required for the transactions can be recorded on this ledger.

**VILLAGE OF MCARTHUR
VINTON COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2007 AND 2006
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2007-002 (Continued)

**Noncompliance Citation and Material Weakness - Ohio Admin. Code Section 117-2-02(D)
(Continued)**

- (3) 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.

During 2007 the Village was unable to print a cash journal, receipt ledger, or appropriation ledger from their new computer system. Revenue and Expenditure reports were available that classified receipts and disbursements into separate accounts, however, these reports did not show the budget amounts vs. the actual amount, uncollected revenue amount or unencumbered balances. Further, cash balances were not maintained on the computer system, but rather tracked on an excel spreadsheet by the Fiscal Officer. This could result in errors and/or irregularities occurring and remaining undetected for an extended period of time.

We recommend the Village maintain the required ledgers on the computer system and that the computer generated reports be used by Council to monitor financial activity.

Officials' Response:

Budget vs. Actual amounts were tracked on a separate spreadsheet. The Village is considering going to the Uniform Accounting Network.

FINDING NUMBER 2007-003

Material Weakness

Auditor of State Bulletin 2002-004 states all local governments participating in Issue 2 Funds must, for each project awarded, establish a capital projects fund to account for both the Issue 2 monies and local matching funds. When participating in an Ohio Public Works Commission (OPWC) Issue 2 project, the OPWC pays the vendor directly for services performed. Further, the Bulletin states the local government shall include in its official or amended certificate of estimated resources the amount of Issue 2 monies anticipated to be received into the project fund during the fiscal year and the fund appropriations should include the amount necessary to meet the obligations to be incurred during the fiscal year.

The Village participated in an Issue 2 project in 2006 and did establish the required Capital Projects Fund, however, the Village did not record the grant proceeds or related expenditures of \$119,988 for the portion paid directly to the vendor by OPWC. Additionally, the Village only certified the estimated receipts and appropriated the amount necessary to meet the obligations for the local match portion of the Issue 2 project.

Lastly, the Village transferred the local match money from the Street Construction, Maintenance and Repair (CM&R) Fund to the Issue 2 Fund. Since that is not a legal transfer, Auditor of State Bulletin 2002-004 states the expenditure for the local match should be reported as a direct expenditure in the Street CM&R Fund.

**VILLAGE OF MCARTHUR
VINTON COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2007 AND 2006
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2007-003 (Continued)

Material Weakness (Continued)

The audited financial statements have been adjusted to record the actual grant proceeds and related expenditures for the portion of the project paid by OPWC and to show the local match payment directly from the Street CM&R Fund. This resulted in expenditures exceeding appropriations in the Issue 2 Fund, contrary to Ohio Rev. Code Section 5705.41(B).

We recommend the Village budget for and record all financial activity, even transactions paid directly to the vendor from grantors or lenders. To ensure the Village's financial statements are complete and accurate, the Village Fiscal Officer and Village Council should review Auditor of State Bulletins to ensure all applicable guidance is applied.

Officials' Response:

We will do this correctly when we have another Issue 2 project.

FINDING NUMBER 2007-004

Material Weakness

Sound financial reporting is the responsibility of the fiscal officer and governing board and is essential to ensure the information provided to the readers of the financial statements is complete and accurate.

As a result of the audit procedures performed, the following errors were noted in the financial statements that required audit adjustment or reclassification:

- * In 2006, an Ohio Public Works Commission (OPWC) Grant in the amount of \$119,988 was received for a paving project wherein OPWC paid the vendor directly for work performed. The Village did not record the intergovernmental revenue and capital outlay disbursement for this project. A separate fund was established to record the local match payment, however, the transfer of \$13,231 from the Street Fund was not a legal transfer and the local match was adjusted to be recorded directly in the Street Fund with the Grant proceeds and related capital outlay disbursement shown in the Capital Projects Fund.
- * In 2006, the Sewer Fund debt payment of \$119,546 was reclassified from Contractual Services to Redemption of Principal of \$105,566 and Interest of \$13,980.
- * In 2006, the Village had a savings account in which monthly transfers were made from the utility receipts in the regular checking account to the savings account to be used to accumulate funds for the semi-annual debt payments. The utility receipts were recorded as Charges for Services when initially received, then an Other Disbursement was recorded when the transfer to the savings account was made. A Miscellaneous Revenue receipt was recorded when the money was transferred back to the checking account to make the debt payment. An adjustment to reduce Miscellaneous Revenue in the amount of \$100,505 and to reduce Other Disbursements in the amount of \$101,505 was posted to the Sewer Fund to eliminate the double posting caused by the transfers to and from the savings account.

**VILLAGE OF MCARTHUR
VINTON COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2007 AND 2006
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2007-004 (Continued)

Material Weakness (Continued)

- * In 2006, the Village received a portion of restitution money from the Vinton County Clerk of Courts related to a prior theft in office. This restitution money of \$28,058 was deposited in a separate bank account and not recorded on the Village financial statements. An adjustment of \$28,058 in Other Financing Sources and \$395 in Earnings on Investment was recorded in the Enterprise Funds in a Restitution Fund in order to include the activity/balance of this outside account on the financial statements. Similarly, an additional \$1,100 in Other Financing Sources from restitution payments and \$630 in Earnings on Investments was adjusted to the Restitution Fund to record activity/balance of this outside account in 2007.
- * In 2007, a fire rescue vehicle was purchased for \$134,951 with the Village Fire Fund paying \$48,800 and the Fire Auxiliary paying the remaining \$86,151 on behalf of the Village. The \$86,151 payment on behalf of the Village was adjusted as Miscellaneous Revenue and the related Capital Outlay expenditure. Further, the \$48,800 paid by the Village was reclassified from Security of Persons and Property to Capital Outlay.
- * In 2007, the Village wrongly received an estate tax settlement from the County Auditor. The estate tax was deposited into a separate bank account and only recorded as a receipt when the payment had to be returned to the County. An adjustment was made to remove the \$169,751 Intergovernmental Revenue and the related General Government disbursement since this settlement was received in error.
- * In 2007, additional estate tax settlements were received and deposited into a separate bank account and not recorded as revenue. An adjustment of \$14,399 in Intergovernmental Revenue and \$1,954 in Earnings on Investments was posted to the General Fund to record the activity/balance in this separate bank account.
- * In 2007, the Village opened a separate savings account to accumulate funds for a new Water Fund debt payment. The Village does not record the receipts deposited into the savings account until they are transferred back to the general checking account to make the payment. Deposits of \$5,800 were deposited into this account, but only \$3,676 was transferred to the checking account when the debt payment was due. The \$3,676 was recorded as Charges for Services by the Village, but the remaining \$2,124 in the savings account was not recorded. An adjustment of \$2,124 in Charges for Services and \$5 in Earnings on Investments was posted to the Water Fund to record the activity/balance in this savings account. Additionally, petty cash of \$144 from the Sewer Fund was not recorded in the Sewer Fund balance so an adjustment was posted to record the \$144 in Charges for Services in the Sewer Fund.

To ensure the Village's financial statements and notes to the financial statements are complete and accurate, the Village should adopt policies and procedures, including a final review of the statements and notes by the Village Fiscal Officer or Village Council, to identify and correct errors or omissions.

Officials' Response:

We did not receive a response from Officials to this finding.

**VILLAGE OF MCARTHUR
VINTON COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2007 AND 2006**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain
2005-001	Noncompliance Citation of Ohio Rev. Code Section 133.03(D) for issuing securities for the purpose of paying current expenses.	Yes	
2005-002	Noncompliance Citation of Ohio Rev. Code Section 149.351(A) for lack of Police Department duplicate receipts for January through May 2004.	Yes	
2005-003	Noncompliance Citation and Material Weakness of Ohio Rev. Code Sections 1905.21 and 2335.25 for inaccurate Mayor's Court docket and cashbook.	Yes	
2005-004	Noncompliance Citation of Ohio Rev. Code Section 5705.10(H) for deficit fund balances.	Yes	
2005-005	Noncompliance Citation of Ohio Rev. Code Section 5705.39 for appropriations exceeding estimated resources.	Yes	
2005-006	Noncompliance Citation of Ohio Rev. Code Section 5705.41(B) for expenditures exceeding appropriations.	No	Partially Corrected - Noncompliance with this section is noted in the accompanying Schedule or Findings as part of Finding Number 2007-003.
2005-007	Noncompliance Citation of Ohio Rev. Code Section 5705.41(D) for failure to certify the availability of funds.	No	Not Corrected – See Finding Number 2007-001 in the accompanying Schedule of Findings
2005-008	Noncompliance Citation of Ohio Admin. Code Section 117-2-02(C)(1) for failure to integrate budgetary accounts into the financial accounting system.	Yes	
2005-009	Noncompliance Citation of Ohio Rev. Code Sections 733.28 and 117.38 and Ohio Admin. Code Sections 117-2-02(A) and 117-2-02(D) for lack of required accounting records.	No	Partially Corrected – Noncompliance with Ohio Admin. Code Section 117-2-02(D) was repeated in the accompanying Schedule of Findings as Finding Number 2007-002.

**VILLAGE OF MCARTHUR
VINTON COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2007 AND 2006
(Continued)**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2005-010	Noncompliance Citation of Section 4.3(a,b) of the Water Pollution Control Loan Fund Agreement for lack of debt covenant compliance.	Yes	
2005-011	Noncompliance Citation and Material Weakness of Ohio Admin. Code Section 117-2-01(D)(4) for inadequate segregation of duties.	Yes	
2005-012	Noncompliance Citation and Material Weakness of Ohio Admin. Code Sections 117-2-01(D)(3) and (5) for weaknesses in internal control related to errors in nonpayroll disbursements.	Yes	



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
AUGUST 26, 2008**