

Village of McArthur
Vinton County
Regular Audit
For the Years Ended December 31, 2011 and 2010



Millhuff-Stang, CPA, Inc.
1428 Gallia Street, Suite 2
Portsmouth, Ohio 45662
Phone: 740.876.8548 ■ Fax: 888.876.8549
Website: www.milhuffstangcpa.com ■ Email: natalie@milhuffstangcpa.com



Dave Yost • Auditor of State

Village Council
Village of McArthur
124 West 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, 2010 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.

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 "Dave Yost".

Dave Yost
Auditor of State

August 27, 2012

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Village of McArthur
Vinton County
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For the Years Ended December 31, 2011 and 2010

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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, 2011 and 2010. 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 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 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, 2011 and 2010 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, 2011 and 2010, 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 as of December 31, 2011 and 2010 and the reserves for encumbrances as of December 31, 2010 of the Village of McArthur, Vinton County, Ohio and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

As described in Note 9, during 2011, the Village implemented 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 14, 2012 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.

June 14, 2012

Village of McArthur
Vinton County, Ohio
Combined Statement of Cash Receipts, Cash Disbursements and Changes in Fund Cash Balances
All Governmental Fund Types
For the Year Ended December 31, 2011

	General Fund	Special Revenue Funds	Capital Projects Fund	Totals (Memorandum Only)
Cash Receipts:				
Property and Other Local Taxes	\$74,691	\$215,585	\$0	\$290,276
Intergovernmental	118,286	128,626	140,901	387,813
Charges for Services	0	70,100	0	70,100
Fines, Licenses and Permits	22,252	75	0	22,327
Earnings on Investments	696	242	0	938
Miscellaneous	18,107	10,773	0	28,880
Total Cash Receipts	234,032	425,401	140,901	800,334
Cash Disbursements:				
Current:				
Security of Persons and Property	43,963	217,921	0	261,884
Public Health Services	540	0	0	540
Leisure Time Activities	0	30,932	0	30,932
Transportation	0	123,176	0	123,176
General Government	110,537	6,755	0	117,292
Capital Outlay	21,376	0	140,901	162,277
Debt Service:				
Principal Payment	66,533	2,181	0	68,714
Interest and Fiscal Charges	2,563	290	0	2,853
Total Cash Disbursements	245,512	381,255	140,901	767,668
Total Receipts Over (Under) Disbursements	(11,480)	44,146	0	32,666
Other Financing Receipts/(Disbursements):				
Other Debt Proceeds	15,200	0	0	15,200
Sale of Fixed Assets	0	4,784	0	4,784
Other Financing Sources	11,032	2,581	0	13,613
Other Financing Uses	(160)	0	0	(160)
Total Other Financing Receipts/(Disbursements)	26,072	7,365	0	33,437
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	14,592	51,511	0	66,103
Fund Cash Balances, January 1	94,149	278,330	0	372,479
Fund Cash Balances, December 31				
Restricted:				
Community Development	0	8,042	0	8,042
Drug and Alcohol Education and Enforcement	0	493	0	493
Street Lighting	0	19,466	0	19,466
Police Operations	0	32,049	0	32,049
Fire Operations	0	161,786	0	161,786
Road Maintenance and Improvements	0	108,005	0	108,005
Unassigned	108,741	0	0	108,741
Fund Cash Balances, December 31	\$108,741	\$329,841	\$0	\$438,582

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

Village of McArthur
Vinton County, Ohio

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, 2011

	Proprietary Fund Type	Fiduciary Fund Types	Totals (Memorandum Only)
	Enterprise	Agency	
Operating Cash Receipts:			
Charges for Services	\$484,928	\$0	\$484,928
Miscellaneous	70	0	70
Total Cash Receipts	484,998	0	484,998
Operating Cash Disbursements:			
Personal Services	130,143	0	130,143
Employee Fringe Benefits	51,561	0	51,561
Contractual Services	106,426	0	106,426
Supplies and Materials	23,776	0	23,776
Other	2,873	0	2,873
Total Cash Disbursements	314,779	0	314,779
Operating Income/(Loss)	170,219	0	170,219
Non-Operating Cash Receipts:			
Other Financing Sources	471	0	471
Other Non-Operating Receipts	0	26,539	26,539
Total Non-Operating Cash Receipts	471	26,539	27,010
Non-Operating Cash Disbursements:			
Redemption of Principal	119,179	0	119,179
Interest and Other Fiscal Charges	7,737	0	7,737
Capital Outlay	26,781	0	26,781
Other Non-Operating Disbursements	0	26,850	26,850
Total Non-Operating Cash Disbursements	153,697	26,850	180,547
Net Receipts Over/(Under) Disbursements	16,993	(311)	16,682
Fund Cash Balances, January 1	126,276	1,965	128,241
Fund Cash Balances, December 31	\$143,269	\$1,654	\$144,923

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

Village of McArthur
Vinton County, Ohio
Combined Statement of Cash Receipts, Cash Disbursements and Changes in Fund Cash Balances
All Governmental Fund Types
For the Year Ended December 31, 2010

	General Fund	Special Revenue Funds	Capital Projects Funds	Totals (Memorandum Only)
Cash Receipts:				
Property and Other Local Taxes	\$77,612	\$199,915	\$0	\$277,527
Intergovernmental	78,953	146,917	30,000	255,870
Charges for Services	0	77,913	0	77,913
Fines, Licenses and Permits	26,705	152	0	26,857
Earnings on Investments	617	208	0	825
Miscellaneous	2,353	13,436	0	15,789
Total Cash Receipts	186,240	438,541	30,000	654,781
Cash Disbursements:				
Current:				
Security of Persons and Property	43,378	222,888	0	266,266
Public Health Services	539	0	0	539
Leisure Time Activities	0	45,447	0	45,447
Transportation	0	107,208	0	107,208
General Government	115,760	9,290	0	125,050
Capital Outlay	0	2,500	30,000	32,500
Debt Service:				
Principal Payment	9,900	839	0	10,739
Interest and Fiscal Charges	2,638	338	0	2,976
Total Cash Disbursements	172,215	388,510	30,000	590,725
Total Receipts Over (Under) Disbursements	14,025	50,031	0	64,056
Other Financing Receipts/(Disbursements):				
Transfers Out	(15,000)	0	0	(15,000)
Transfers In	0	15,000	0	15,000
Other Financing Sources	217	8,802	0	9,019
Other Financing Uses	0	(63)	0	(63)
Total Other Financing Receipts/(Disbursements)	(14,783)	23,739	0	8,956
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(758)	73,770	0	73,012
Fund Cash Balances, January 1	94,907	204,560	0	299,467
Fund Cash Balances, December 31	\$94,149	\$278,330	\$0	\$372,479
Reserve for Encumbrances	\$708	\$1,392	\$0	\$2,100

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

Village of McArthur
Vinton County, Ohio

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, 2010

	<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Types</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Agency</u>	
Operating Cash Receipts:			
Charges for Services	\$492,793	\$0	\$492,793
Miscellaneous	795	0	795
Total Cash Receipts	493,588	0	493,588
Operating Cash Disbursements:			
Personal Services	152,995	0	152,995
Employee Fringe Benefits	82,828	0	82,828
Contractual Services	105,623	0	105,623
Supplies and Materials	38,045	0	38,045
Total Cash Disbursements	379,491	0	379,491
Operating Income/(Loss)	114,097	0	114,097
Non-Operating Cash Receipts:			
Earnings on Investments	7	0	7
Other Financing Sources	2,953	0	2,953
Other Non-Operating Receipts	0	32,149	32,149
Total Non-Operating Cash Receipts	2,960	32,149	35,109
Non-Operating Cash Disbursements:			
Redemption of Principal	116,903	0	116,903
Interest and Other Fiscal Charges	10,013	0	10,013
Capital Outlay	2,500	0	2,500
Other Non-Operating Cash Disbursements	0	32,799	32,799
Total Non-Operating Cash Disbursements	129,416	32,799	162,215
Net Receipts Over/(Under) Disbursements	(12,359)	(650)	(13,009)
Fund Cash Balances, January 1	138,635	2,615	141,250
Fund Cash Balances, December 31	<u>\$126,276</u>	<u>\$1,965</u>	<u>\$128,241</u>
Reserve for Encumbrances	<u>\$4,449</u>	<u>\$0</u>	<u>\$4,449</u>

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, 2011 and 2010

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 2011 and 2010 budgetary activity appears in Note 3.

Village of McArthur
Vinton County
Notes to the Financial Statements
For the Years Ended December 31, 2011 and 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Fund Balance

For December 31, 2011, fund balance is divided into five classifications based primarily on the extent to which the Village must observe constraints imposed upon the use of its governmental-fund resources. The classifications are as follows:

1. Nonspendable

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

2. Restricted

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

3. Committed

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

4. Assigned

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

5. Unassigned

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

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

G. 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.

Village of McArthur
Vinton County
Notes to the Financial Statements
For the Years Ended December 31, 2011 and 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. 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:

	2011	2010
Demand Deposits	\$583,505	\$500,720

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, 2011 follows:

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$260,264	\$260,264	\$0
Special Revenue	432,764	432,766	2
Capital Projects	140,901	140,901	0
Enterprise	487,043	485,469	(1,574)
Total	\$1,320,972	\$1,319,400	(\$1,572)

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$245,672	\$245,672	\$0
Special Revenue	381,255	381,255	0
Capital Projects	140,901	140,901	0
Enterprise	468,476	468,476	0
Total	\$1,236,102	\$1,236,304	\$0

Village of McArthur
Vinton County
Notes to the Financial Statements
For the Years Ended December 31, 2011 and 2010

3. BUDGETARY ACTIVITY (Continued)

Budgetary activity for the year ending December 31, 2010 follows:

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$171,335	\$186,457	\$15,122
Special Revenue	379,821	462,343	82,522
Capital Projects	35,000	30,000	(5,000)
Enterprise	478,637	496,548	17,911
Total	\$1,064,793	\$1,175,348	\$110,555

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$191,639	\$187,923	\$3,716
Special Revenue	436,767	389,965	46,802
Capital Projects	35,000	30,000	5,000
Enterprise	524,819	513,356	11,463
Total	\$1,188,225	\$1,121,244	\$66,981

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, 2011 was as follows:

	Principal	Interest Rate
Ohio Water Development Authority Loan #2341	\$117,747	2.00%
Ohio Water Development Authority Loan #4682	85,725	4.12%
Mower Note	3,239	5.35%
Total	\$206,711	

Village of McArthur
Vinton County
Notes to the Financial Statements
For the Years Ended December 31, 2011 and 2010

5. DEBT (Continued)

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.

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.

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. A lump sum payment was made in 2011 to pay this obligation off in full.

On May 24, 2011, the Village issued a note in the amount of \$15,200 for the purpose of purchasing a police car. The note requires semi-annual payments of \$3,919, including interest, in three installments. The note is collateralized by the vehicle. A lump sum payment was made in 2011 to pay this obligation off in full.

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

Year Ending December 31:	OWDA Loan #2341	OWDA Loan #4682	Mower Note
2012	\$119,546	\$7,369	\$1,177
2013	0	7,369	1,177
2014	0	7,369	1,177
2015	0	7,369	1,061
2016	0	7,369	0
2017-2021	0	36,847	0
2022-2026	0	36,847	0
2027	0	7,371	0
Total	\$119,546	\$117,910	\$4,592

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 2011 and 2010, OP&F members contributed 10 percent of their wages. The Village contributed an amount equal to 19.5 percent of participants' gross salaries. For 2011 and 2010, 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, 2011.

Village of McArthur
Vinton County
Notes to the Financial Statements
For the Years Ended December 31, 2011 and 2010

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 currently party to litigation, however the Village is of the opinion that the ultimate disposition of claims will not have a material effect, if any, on the financial condition of the Village.

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. CHANGES IN ACCOUNTING PRINCIPLES

In February 2009, the Governmental Accounting Standards Board (GASB) issued Statement No. 54 “Fund Balance Reporting and Governmental Fund Type Definitions”, which the Village has implemented for the year ended December 31, 2011. This pronouncement does not affect the calculation of the Village’s fund balance but does shift the focus of fund balance reporting from the availability of fund resources for budgeting to the extent to which the Village is bound to honor constraints on the specific purposes for which amounts in funds can be spent (See Note 1). Fund balances have been classified in the financial statements, as applicable, for the year ended December 31, 2011 in accordance with this pronouncement. This pronouncement also requires that certain funds previously reported as Special Revenue Funds by reclassified to the General Fund. The Village has no funds that required fund reclassification.

10. COMPLIANCE

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

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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, 2011 and 2010, and have issued our report thereon dated June 14, 2012, 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 also noted the Village adopted Governmental Accounting Standards Board Statement 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 *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Village is responsible for establishing and maintaining effective 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 deficiency described in the accompanying schedule of findings and responses to be a material weakness, which is described in the accompanying schedule of findings and responses as item 2011-1.

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*

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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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as items 2011-2.

We noted certain matters that we reported to management of the Village in a separate letter dated June 14, 2012.

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.

June 14, 2012

Village of McArthur
Vinton County
Schedule of Findings and Responses
For the Years Ended December 31, 2011 and 2010

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

FINDING NUMBER 2011-1

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 receipts and disbursements by line item in 2010 and 2011. These misclassifications were corrected in the accompanying financial statements. The Village should implement additional monitoring procedures to ensure transactions are properly recorded.

Client Response:

Motor Vehicle License Tax has been in the same line item for years and nothing was said. I think sale of timber goes under fixed assets.

FINDING NUMBER 2011-2

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.

Fifty percent of disbursements tested in 2010 and twenty-eight percent of disbursements tested in 2011 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:

Amounts in each fund approved by Council. Transfers were approved to line items for bills to be paid. BC and PO's were opened as needed. We are now using the then and now, so this has been corrected.

Village of McArthur
Vinton County
Schedule of Prior Audit Findings
For the Years Ended December 31, 2011 and 2010

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
Finding 2009-1	Material Weakness – Budgetary Information within the accounting system	Yes	
Finding 2009-2	Material Weakness – Financial Reporting	No	Reissued as Finding 2011-1
Finding 2009-3	Noncompliance – Expenditures in Excess of Appropriations	Yes	
Finding 2009-4	Noncompliance – Appropriations in Excess of Available Resources	Yes	
Finding 2009-5	Noncompliance – Prior Encumbrance of Funds	No	Reissued as Finding 2011-2
Finding 2009-6	Noncompliance/Material Weakness – Ohio Admin. Code Section 117-2-03(D)	Yes	



Dave Yost • 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
SEPTEMBER 6, 2012