

Village of McArthur
Vinton County
Regular Audit
For the Years Ended December 31, 2013 and 2012



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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, 2012 through December 31, 2013. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Village of 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 22, 2014

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Vinton County
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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements and related notes of the Village of McArthur, Vinton County, (the Village) as of and for the years ended December 31, 2013 and 2012.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Village's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Village's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinion.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statements, the Village prepared these financial statements using the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D), which is an accounting basis other than accounting principles generally accepted in the United States of America, to satisfy requirements.

The effects of the financial statements of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2013 and 2012, or changes in financial position or cash flows thereof for the years then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined cash balances of the Village of McArthur, Vinton County, as of December 31, 2013 and 2012, and its combined cash receipts and disbursements for the years then ended in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit, described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 19, 2014, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine 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* in considering the Village's internal control over financial reporting and compliance.



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

May 19, 2014

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, 2013

	General Fund	Special Revenue Funds	Totals (Memorandum Only)
Cash Receipts:			
Property and Other Local Taxes	\$100,058	\$224,366	\$324,424
Intergovernmental	79,975	158,836	238,811
Charges for Services	0	77,703	77,703
Fines, Licenses and Permits	21,865	494	22,359
Earnings on Investments	560	190	750
Miscellaneous	19,956	15,570	35,526
Total Cash Receipts	222,414	477,159	699,573
Cash Disbursements:			
Current:			
Security of Persons and Property	8,849	304,103	312,952
Public Health Services	526	0	526
Leisure Time Activities	0	29,752	29,752
Transportation	0	116,749	116,749
General Government	115,686	7,200	122,886
Capital Outlay	0	0	0
Debt Service:			
Principal Payment	0	1,059	1,059
Interest and Fiscal Charges	0	118	118
Total Cash Disbursements	125,061	458,981	584,042
Total Receipts Over Disbursements	97,353	18,178	115,531
Other Financing Receipts/(Disbursements):			
Advances Out	(5,000)	0	(5,000)
Advances In	0	5,000	5,000
Transfers In	126	20,431	20,557
Transfers Out	(11,541)	(21,434)	(32,975)
Other Financing Sources	5,674	4,628	10,302
Other Financing Uses	(214)	(45)	(259)
Total Other Financing Receipts/(Disbursements)	(10,955)	8,580	(2,375)
Excess of Cash Receipts and Other Financing Receipts Over Cash Disbursements and Other Financing Disbursements	86,398	26,758	113,156
Fund Cash Balances, January 1	99,178	319,931	419,109
Fund Cash Balances, December 31			
Restricted:			
Community Development	0	9,705	9,705
Drug and Alcohol Education and Enforcement	0	404	404
Street Lighting	0	19,593	19,593
Police Operations	0	30,586	30,586
Fire Operations	0	159,827	159,827
Road Maintenance and Improvements	0	126,574	126,574
Unassigned	185,576	0	185,576
Fund Cash Balances, December 31	\$185,576	\$346,689	\$532,265

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, 2013*

	Proprietary Fund Type	Fiduciary Fund Types	Totals (Memorandum Only)
	Enterprise	Agency	
Operating Cash Receipts:			
Charges for Services	\$461,459	\$0	\$461,459
Miscellaneous	120	0	120
Total Cash Receipts	461,579	0	461,579
Operating Cash Disbursements:			
Personal Services	150,333	0	150,333
Employee Fringe Benefits	53,934	0	53,934
Contractual Services	99,580	0	99,580
Supplies and Materials	39,525	0	39,525
Total Cash Disbursements	343,372	0	343,372
Operating Income	118,207	0	118,207
Non-Operating Cash Receipts:			
Other Financing Sources	3,377	0	3,377
Other Non-Operating Receipts	0	23,500	23,500
Total Non-Operating Cash Receipts	3,377	23,500	26,877
Non-Operating Cash Disbursements:			
Redemption of Principal	4,038	0	4,038
Interest and Other Fiscal Charges	3,331	0	3,331
Capital Outlay	35,532	0	35,532
Other Non-Operating Disbursements	1,123	24,340	25,463
Total Non-Operating Cash Disbursements	44,024	24,340	68,364
Income before Transfers:	77,560	(840)	76,720
Transfers In	12,418	0	12,418
Net Change in Fund Cash Balance	89,978	(840)	89,138
Fund Cash Balances, January 1	124,126	1,621	125,747
Fund Cash Balances, December 31	\$214,104	\$781	\$214,885

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, 2012

	General Fund	Special Revenue Funds	Capital Projects Funds	Totals (Memorandum Only)
Cash Receipts:				
Property and Other Local Taxes	\$74,030	\$216,617	\$0	\$290,647
Intergovernmental	75,764	120,236	139,441	335,441
Charges for Services	0	83,579	0	83,579
Fines, Licenses and Permits	17,480	412	0	17,892
Earnings on Investments	540	183	0	723
Miscellaneous	16,382	9,940	0	26,322
Total Cash Receipts	184,196	430,967	139,441	754,604
Cash Disbursements:				
Current:				
Security of Persons and Property	57,034	245,898	0	302,932
Leisure Time Activities	0	25,956	0	25,956
Basic Utility Services	0	410	0	410
Transportation	0	123,948	0	123,948
General Government	113,186	7,551	0	120,737
Capital Outlay	24,104	37,528	139,441	201,073
Debt Service:				
Principal Payment	0	1,002	0	1,002
Interest and Fiscal Charges	0	175	0	175
Total Cash Disbursements	194,324	442,468	139,441	776,233
Total Receipts Under Disbursements	(10,128)	(11,501)	0	(21,629)
Other Financing Receipts/(Disbursements):				
Other Financing Sources	609	1,551	0	2,160
Other Financing Uses	(44)	0	0	(44)
Total Other Financing Receipts/(Disbursements)	565	1,551	0	2,116
Excess of Cash Receipts and Other Financing Receipts Under Cash Disbursements and Other Financing Disbursements	(9,563)	(9,950)	0	(19,513)
Fund Cash Balances, January 1-Restated	108,741	329,881	0	438,622
Fund Cash Balances, December 31				
Restricted:				
Community Development	0	10,152	0	10,152
Drug and Alcohol Education and Enforcement	0	405	0	405
Street Lighting	0	20,431	0	20,431
Police Operations	0	16,946	0	16,946
Fire Operations	0	160,140	0	160,140
Road Maintenance and Improvements	0	111,857	0	111,857
Unassigned	99,178	0	0	99,178
Fund Cash Balances, December 31	\$99,178	\$319,931	\$0	\$419,109

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, 2012*

	Proprietary Fund Type	Fiduciary Fund Types	Totals (Memorandum Only)
	Enterprise	Agency	
Operating Cash Receipts:			
Charges for Services	\$462,248	\$0	\$462,248
Miscellaneous	559	0	559
Total Cash Receipts	462,807	0	462,807
Operating Cash Disbursements:			
Personal Services	139,310	0	139,310
Employee Fringe Benefits	60,099	0	60,099
Contractual Services	108,567	0	108,567
Supplies and Materials	41,655	0	41,655
Total Cash Disbursements	349,631	0	349,631
Operating Income	113,176	0	113,176
Non-Operating Cash Receipts:			
Other Financing Sources	3,984	0	3,984
Other Non-Operating Receipts	0	19,438	19,438
Total Non-Operating Cash Receipts	3,984	19,438	23,422
Non-Operating Cash Disbursements:			
Redemption of Principal	121,624	0	121,624
Interest and Other Fiscal Charges	5,292	0	5,292
Capital Outlay	9,387	0	9,387
Other Non-Operating Cash Disbursements	0	19,471	19,471
Total Non-Operating Cash Disbursements	136,303	19,471	155,774
Net Receipts Under Disbursements	(19,143)	(33)	(19,176)
Fund Cash Balances, January 1	143,269	1,654	144,923
Fund Cash Balances, December 31	\$124,126	\$1,621	\$125,747
Reserve for Encumbrances	\$4,449	\$0	\$4,449

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, 2013 and 2012

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 2013 and 2012 budgetary activity appears in Note 3.

Village of McArthur
Vinton County
Notes to the Financial Statements
For the Years Ended December 31, 2013 and 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Fund Balance

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, 2013 and 2012

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:

	2013	2012
Demand Deposits	\$747,150	\$544,856

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, 2013 follows:

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$169,046	\$228,214	\$59,168
Special Revenue	443,940	502,218	58,278
Capital Projects	39,997	0	(39,997)
Enterprise	483,965	477,374	(6,591)
Total	\$1,136,948	\$1,207,806	\$70,858

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$136,816	\$136,816	\$0
Special Revenue	487,944	480,460	7,484
Enterprise	387,398	387,396	2
Total	\$1,012,158	\$1,004,672	\$7,486

Budgetary activity for the year ending December 31, 2012 follows:

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$184,803	\$184,805	\$2
Special Revenue	421,519	432,518	10,999
Capital Projects	139,441	139,441	0
Enterprise	415,623	466,791	51,168
Total	\$1,161,386	\$1,223,555	\$62,169

Village of McArthur
Vinton County
Notes to the Financial Statements
For the Years Ended December 31, 2013 and 2012

3. BUDGETARY ACTIVITY (Continued)

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$194,368	\$194,368	\$0
Special Revenue	426,434	442,468	(16,034)
Capital Projects	139,441	139,441	0
Enterprise	484,126	485,934	(1,808)
Total	\$1,244,369	\$1,262,211	(\$17,842)

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.

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, 2013 was as follows:

	Principal	Interest Rate
Ohio Water Development Authority Loan #4682	\$77,811	4.12%
Mower Note	1,177	5.35%
Total	\$78,988	

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 prepaid 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. This loan was repaid in full during 2012.

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.

Village of McArthur
Vinton County
Notes to the Financial Statements
For the Years Ended December 31, 2013 and 2012

5. DEBT (Continued)

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

Year Ending December 31:	OWDA Loan #4682	Mower Note
2014	\$7,369	\$1,177
2015	7,369	0
2016	7,369	0
2017	7,369	0
2018	7,369	0
2019-2023	36,847	0
2024-2028	29,478	0
Total	\$103,170	\$1,177

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 2013 and 2012, OP&F members contributed 10 percent of their wages. The Village contributed an amount equal to 19.5 percent of participants’ gross salaries. For 2013 and 2012, 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, 2013.

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 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.

Village of McArthur
Vinton County
Notes to the Financial Statements
For the Years Ended December 31, 2013 and 2012

9. COMPLIANCE

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

Contrary to Ohio Revised Code 5705.41(B), the Village had expenditures in excess of appropriations in 2012.

10. RESTATEMENT

The Village voided checks issued in a prior year. As such, beginning fund cash balances were adjusted to reflect this action. These adjustments had the following effect on previously reported fund cash balances.

	Special Revenue Funds
Fund Cash Balance, December 31, 2011, As Previously Reported	<u>\$329,841</u>
Restatement for Voided Checks	40
Fund Cash Balance, December 31, 2011, As Restated	<u>\$329,881</u>

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*

Independent Auditor's Report

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

We have audited 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, the financial statements of the Village of McArthur, Vinton County (the Village) as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements and have issued our report thereon dated May 19, 2014, 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.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Village's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control 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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2013-1 and 2013-3 to be material weaknesses.

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 2013-2 and 2013-4.

Village's Responses to Findings

The Village's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Village's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



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

May 19, 2014

Village of McArthur
Vinton County
Schedule of Findings and Responses
For the Years Ended December 31, 2013 and 2012

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

Finding Number 2013-1

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 disbursements and fund balances by line item in 2012 and 2013. In addition, Mayor's Court activity was not recorded for either year. These misclassifications and misstatements were corrected in the accompanying financial statements. The Village should implement additional monitoring procedures to ensure transactions are properly recorded and classified.

Client Response:

Will be corrected and will ensure this is completed in the future.

Finding Number 2013-2

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 a "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.

Several disbursements tested in 2012 and 2013 had invoice dates preceding encumbrance dates. Failure to certify the availability of funds properly can result in overspending 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:

It was my understanding that utility bills were ok to pay into the next year, but from here on will use a Then and Now on these.

Village of McArthur
Vinton County
Schedule of Findings and Responses
For the Years Ended December 31, 2013 and 2012

Finding Number 2013-3

Material Weakness – Budgetary Information Within Accounting System

Accurate budgetary information within the Village’s accounting system is pertinent to ensure that the Village has accurate and complete information for decision-making processes. A small variance was noted between 2012 appropriations per the County/approved by Council and the accounting system. However, large variances were identified between estimated resources per the amended certificates filed with the County and those posted to the accounting system for both years of the audit period. Failure to properly maintain budget information within the accounting system could result in adverse implications as decisions by management and Council may be based on this misinformation. The Village should implement the appropriate procedures, such as periodic comparison of authorized budgetary documents to the accounting system, to ensure budgetary information is accurate, complete, and current.

Client Response:

We will oversee more closely and check to prevent in the future.

Finding Number 2013-4

Noncompliance Citation – Ohio Revised Code Section 5705.41(B)

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 in 2012 in the water and sewer OWDA funds. 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:

BPA takes care of their budget and this apparently was an oversight on their part.

Village of McArthur
Vinton County
Schedule of Prior Audit Findings
For the Years Ended December 31, 2013 and 2012

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
Finding 2011-1	Material Weakness – Financial Reporting	No	Reissued as Finding 2013-1
Finding 2011-2	Noncompliance – Prior Encumbrance of Funds	No	Reissued as Finding 2013-2



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 4, 2014