



**Auditor of State  
Betty Montgomery**



VILLAGE OF MCDONALD  
TRUMBULL COUNTY

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**Auditor of State  
Betty Montgomery**

Village of McDonald  
Trumbull County  
451 Ohio Avenue  
McDonald, Ohio 44437

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 a February 2, 2005 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 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.

A handwritten signature in black ink that reads "Betty Montgomery".

**Betty Montgomery**  
Auditor of State

September 18, 2006

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## Auditor of State Betty Montgomery

### INDEPENDENT ACCOUNTANTS' REPORT

Village of McDonald  
Trumbull County  
451 Ohio Avenue  
McDonald, Ohio 44437

To the Village Council:

We have audited the accompanying financial statements of the Village of McDonald, Trumbull County, (the Village) as of and for the years ended December 31, 2005 and 2004. 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.

Revisions to GAAP would require the Village to reformat its financial statement presentation and make other changes effective for the years ended December 31, 2005 and 2004. Instead of the combined funds the accompanying financial statements present for 2005 and 2004 the revisions require presenting entity wide statements and also to present its larger (i.e. major) funds separately for 2005 and 2004. 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 the new GAAP presentation requirements. The Auditor of State permits, but does not require governments to reformat their statements. The Village has elected not to reformat its statements. Since this Village does not use GAAP to measure financial statement amounts, 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, 2005 and 2004 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, 2005 and 2004, or its changes in financial position or cash flows of its proprietary funds 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 McDonald, Trumbull County, as of December 31, 2005 and 2004, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

The aforementioned revision to generally accepted accounting principles also requires the Village to include Management's Discussion and Analysis for the years ended December 31, 2005 and 2004. The Village has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 18, 2006 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.



**Betty Montgomery**  
Auditor of State

September 18, 2006



**VILLAGE OF MCDONALD  
TRUMBULL COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>Governmental Fund Types</u>				<b>Totals (Memorandum Only)</b>
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	
<b>Cash Receipts:</b>					
Property Tax and Other Local Taxes	\$135,196				\$135,196
Intergovernmental Receipts	118,495	\$176,198		\$30,230	324,923
Charges for Services	16,037	23,752			39,789
Fines, Licenses, and Permits	35,692	4,060			39,752
Earnings on Investments	31,068			1,888	32,956
Miscellaneous	38,743	6,473			45,216
	<u>375,231</u>	<u>210,483</u>	<u>0</u>	<u>32,118</u>	<u>617,832</u>
<b>Cash Disbursements:</b>					
Current:					
Security of Persons and Property	363,639	102,329			465,968
Public Health Services	5,700				5,700
Leisure Time Activities	20,968				20,968
Community Environment	2,621				2,621
Basic Utility Services	116,989				116,989
Transportation	1,517	192,007			193,524
General Government	350,492				350,492
Debt Service:					
Principal Payments			61,701		61,701
Interest Payments			4,687		4,687
Capital Outlay		2,335		172,736	175,071
	<u>861,926</u>	<u>296,671</u>	<u>66,388</u>	<u>172,736</u>	<u>1,397,721</u>
Total Receipts Over/(Under) Disbursements	(486,695)	(86,188)	(66,388)	(140,618)	(779,889)
<b>Other Financing Receipts and (Disbursements):</b>					
Transfers-In	475,000	85,000	75,000	205,000	840,000
	<u>475,000</u>	<u>85,000</u>	<u>75,000</u>	<u>205,000</u>	<u>840,000</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements					
	(11,695)	(1,188)	8,612	64,382	60,111
Fund Cash Balances, January 1	61,141	168,684	21,707	48,605	300,137
<b>Fund Cash Balances, December 31</b>	<b><u>\$49,446</u></b>	<b><u>\$167,496</u></b>	<b><u>\$30,319</u></b>	<b><u>\$112,987</u></b>	<b><u>\$360,248</u></b>

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

**VILLAGE OF MCDONALD  
TRUMBULL COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN FUND CASH BALANCES - ALL PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Proprietary Fund Types		Fiduciary Fund Types	Totals (Memorandum Only)
	Enterprise	Internal Service	Agency	
<b>Operating Cash Receipts:</b>				
Charges for Services	\$846,187			\$846,187
Miscellaneous	111,226	\$9,015	\$43,210	163,451
Total Operating Cash Receipts	957,413	9,015	43,210	1,009,638
<b>Operating Cash Disbursements:</b>				
Personal Services	315,251	21	46,472	361,744
Contractual Services	449,790			449,790
Supplies and Materials	68,209			68,209
General Government			43,210	43,210
Capital Outlay	5,506			5,506
Total Operating Cash Disbursements	838,756	21	89,682	928,459
Operating Income/(Loss)	118,657	8,994	(46,472)	81,179
<b>Non-Operating Cash Receipts:</b>				
Property Tax and Other Local Taxes			942,679	942,679
Intergovernmental Receipts			1,564	1,564
Earnings on Investments	181	62	3,630	3,873
Total Non-Operating Cash Receipts	181	62	947,873	948,116
<b>Non-Operating Cash Disbursements:</b>				
Debt Service	192,262			192,262
Other Non-Operating Cash Disbursements			42,608	42,608
Total Non-Operating Cash Disbursements	192,262	0	42,608	234,870
Excess of Receipts Over/(Under) Disbursements Before Interfund Transfers and Advances	(73,424)	9,056	858,793	794,425
Transfers-In	80,000		23,000	103,000
Transfers-Out	(80,000)		(863,000)	(943,000)
Net Receipts Over/(Under) Disbursements	(73,424)	9,056	18,793	(45,575)
Fund Cash Balances, January 1	716,287	65,408	647,929	1,429,624
<b>Fund Cash Balances, December 31</b>	<b>\$642,863</b>	<b>\$74,464</b>	<b>\$666,722</b>	<b>\$1,384,049</b>

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

**VILLAGE OF MCDONALD  
TRUMBULL COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Governmental Fund Types</u>				<b>Totals (Memorandum Only)</b>
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	
<b>Cash Receipts:</b>					
Property Tax and Other Local Taxes	\$137,657				\$137,657
Intergovernmental Receipts	116,237	\$279,935		\$7,569	403,741
Charges for Services	15,097	24,404			39,501
Fines, Licenses, and Permits	44,194	4,715			48,909
Earnings on Investments	25,798			766	26,564
Miscellaneous	31,182	6,533		309,517	347,232
<b>Total Cash Receipts</b>	<b>370,165</b>	<b>315,587</b>	<b>0</b>	<b>317,852</b>	<b>1,003,604</b>
<b>Cash Disbursements:</b>					
Current:					
Security of Persons and Property	361,563	96,749			458,312
Public Health Services	5,805				5,805
Leisure Time Activities	18,039				18,039
Community Environment	3,179				3,179
Basic Utility Services	116,650				116,650
Transportation		293,520			293,520
General Government	381,933	10,630			392,563
Debt Service:					
Principal Payments			\$69,379		69,379
Interest Payments			4,997		4,997
Capital Outlay				630,172	630,172
<b>Total Cash Disbursements</b>	<b>887,169</b>	<b>400,899</b>	<b>74,376</b>	<b>630,172</b>	<b>1,992,616</b>
<b>Total Receipts Over/(Under) Disbursements</b>	<b>(517,004)</b>	<b>(85,312)</b>	<b>(74,376)</b>	<b>(312,320)</b>	<b>(989,012)</b>
<b>Other Financing Receipts and (Disbursements):</b>					
Transfers-In	460,000	156,500	90,000	190,246	896,746
Transfers-Out	(12,377)				(12,377)
Sale of Property	1,655			35,882	37,537
<b>Total Other Financing Receipts/(Disbursements)</b>	<b>449,278</b>	<b>156,500</b>	<b>90,000</b>	<b>226,128</b>	<b>921,906</b>
<b>Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements</b>	<b>(67,726)</b>	<b>71,188</b>	<b>15,624</b>	<b>(86,192)</b>	<b>(67,106)</b>
<b>Fund Cash Balances, January 1</b>	<b>128,867</b>	<b>97,496</b>	<b>6,083</b>	<b>134,797</b>	<b>367,243</b>
<b>Fund Cash Balances, December 31</b>	<b>\$61,141</b>	<b>\$168,684</b>	<b>\$21,707</b>	<b>\$48,605</b>	<b>\$300,137</b>

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

**VILLAGE OF MCDONALD  
TRUMBULL COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN FUND CASH BALANCES - ALL PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Proprietary Fund Types		Fiduciary Fund Types	Totals (Memorandum Only)
	Enterprise	Internal Service	Agency	
<b>Operating Cash Receipts:</b>				
Charges for Services	\$909,390			\$909,390
Miscellaneous	16,108	5,264	\$58,181	79,553
Total Operating Cash Receipts	925,498	5,264	58,181	988,943
<b>Operating Cash Disbursements:</b>				
Personal Services	216,164	\$47	48,560	264,771
Contractual Services	428,498			428,498
Supplies and Materials	44,435			44,435
General Government			56,260	56,260
Total Operating Cash Disbursements	689,097	47	104,820	793,964
Operating Income/(Loss)	236,401	5,217	(46,639)	194,979
<b>Non-Operating Cash Receipts:</b>				
Property Tax and Other Local Taxes			891,881	891,881
Intergovernmental Receipts			1,557	1,557
Earnings on Investments	739	769	1,414	2,922
Total Non-Operating Cash Receipts	739	769	894,852	896,360
<b>Non-Operating Cash Disbursements:</b>				
Debt Service	40,127			40,127
Other Non-Operating Cash Disbursements			46,603	46,603
Total Non-Operating Cash Disbursements	40,127	0	46,603	86,730
Excess of Receipts Over/(Under) Disbursements Before Interfund Transfers and Advances	197,013	5,986	801,610	1,004,609
Transfers-In	32,034		35,090	67,124
Transfers-Out	(37,593)		(913,900)	(951,493)
Net Receipts Over/(Under) Disbursements	191,454	5,986	(77,200)	120,240
Fund Cash Balances, January 1	524,833	59,422	725,129	1,309,384
<b>Fund Cash Balances, December 31</b>	<b>\$716,287</b>	<b>\$65,408</b>	<b>\$647,929</b>	<b>\$1,429,624</b>

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

**VILLAGE OF MCDONALD  
TRUMBULL COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND 2004**

**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 McDonald, Trumbull County, (the Village) as a body corporate and politic. A publicly-elected six-member Council governs the Village. The Village provides water and sewer utilities, park operations, and police services, 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 the Auditor of State prescribes.

**C. Cash and Investments**

The Village's accounting basis includes investments as assets. This basis does not report disbursements for investment purchases or receipts for investment sales. The Village reports gains or losses at the time of sale as receipts or disbursements, respectively.

The Village values certificates of deposit and repurchase agreements at cost. Money market mutual funds (including STAR Ohio) are recorded at share values the mutual fund reports.

**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 Fund:

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

**3. Debt Service Fund**

This fund accounts for resources the Village accumulates to pay bond and note debt.

VILLAGE OF MCDONALD  
TRUMBULL COUNTY

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND 2004  
(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

4. Capital Project Funds

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

Capital Improvement Fund - This fund receives local income tax proceeds to finance capital improvements to Village property.

5. 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.

6. Internal Service Fund

This fund is used to account for the financing of health insurance premiums provided by one department to other departments of the Village on a cost-reimbursement basis.

7. Fiduciary Funds (Agency Funds)

Funds for which the Village is acting in an agency capacity are classified as agency funds. The Village had the following significant agency funds:

Income Tax Fund – Revenues are received through the collection of a two-percent tax. The tax revenue received is transferred to other funds and used to meet the obligations of these funds.

Police and Fire Pension Fund – Revenues are received through taxes designated for the payment of Police and Fire Pension obligations.

Mayor's Court Fund – Receives and disburses fines and court costs collected by the Mayor's Court. This activity is appended to and reported in the financial statements.

E. Budgetary Process

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

**VILLAGE OF MCDONALD  
TRUMBULL COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND 2004  
(Continued)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (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. 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 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 2005 and 2004 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 AND INVESTMENTS**

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

	2005	2004
Demand deposits	(\$33,810)	(\$20,118)
Certificates of deposit	713,432	713,432
Total deposits	679,622	693,314
STAR Ohio	253,850	246,188
Repurchase agreement	810,825	790,259
Total investments	1,064,675	1,036,447
Total deposits and investments	\$1,744,297	\$1,729,761

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

**VILLAGE OF MCDONALD  
TRUMBULL COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND 2004  
(Continued)**

**2. EQUITY IN POOLED CASH AND INVESTMENTS – (Continued)**

**Investments:** Investments in STAR Ohio and mutual funds are not evidenced by securities that exist in physical or book-entry form. The Village's financial institution transfers securities to the Village's agent to collateralize repurchase agreements. The securities are not in the Village's name.

**3. BUDGETARY ACTIVITY**

Budgetary activity for the years ending December 31, 2005 and 2004 follows:

2005 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$0	\$850,231	\$850,231
Special Revenue	0	295,483	295,483
Debt Service	0	75,000	75,000
Capital Projects	0	237,118	237,118
Enterprise	0	1,037,594	1,037,594
Internal Service	0	9,077	9,077
Fiduciary	0	1,014,083	1,014,083
Total	\$0	\$3,518,586	\$3,518,586

2005 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$900,611	\$861,926	\$38,685
Special Revenue	649,675	296,671	353,004
Debt Service	74,900	66,388	8,512
Capital Projects	218,500	172,736	45,764
Enterprise	1,211,433	1,111,018	100,415
Internal Service	900	21	879
Fiduciary	995,290	995,290	0
Total	\$4,051,309	\$3,504,050	\$547,259

2004 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$866,464	\$831,820	(\$34,644)
Special Revenue	743,060	472,087	(270,973)
Debt Service	100,000	90,000	(10,000)
Capital Projects	625,000	543,980	(81,020)
Enterprise	979,083	958,271	(20,812)
Internal Service	60,211	6,033	(54,178)
Fiduciary	940,190	988,123	47,933
Total	\$4,314,008	\$3,890,314	(\$423,694)



**VILLAGE OF MCDONALD  
TRUMBULL COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND 2004  
(Continued)**

**3. BUDGETARY ACTIVITY – (Continued)**

2004 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$960,786	\$899,546	\$61,240
Special Revenue	749,583	400,899	348,684
Debt Service	74,384	74,376	8
Capital Projects	732,500	630,172	102,328
Enterprise	946,104	766,817	179,287
Internal Service	600	47	553
Fiduciary	1,075,300	1,065,323	9,977
Total	\$4,539,257	\$3,837,180	\$702,077

Contrary to Ohio law, the Village did not obtain certification of all fund balances plus estimated receipts from the County Budget Commission for the year ended December 31, 2005. Also contrary to Ohio law, the Village Fiscal Officer did not always certify the availability of funds prior to an order or contract involving the expenditure of money in all funds.

**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.

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. LOCAL INCOME TAX**

The Village levies a municipal income tax of 2.0 percent on substantially all earned income arising from employment, residency, or business activities within the Village as well as certain income of residents earned outside of the Village.

Employers within the Village withhold income tax on employee compensation and remit the tax to the Village either monthly or quarterly, as required. Corporations and other individual taxpayers pay estimated taxes quarterly and file a declaration annually.

**VILLAGE OF MCDONALD  
TRUMBULL COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND 2004  
(Continued)**

**6. DEBT**

Debt outstanding at December 31, 2005 was as follows:

	Principal	Interest Rate
OWDA Loan	\$854,973	5.00%
OPWC Loans	268,758	0.00%
General Obligation Note	66,226	4.00%
Promissory Note	44,425	5.90%
Total	\$1,234,382	

The Ohio Water Development Authority (OWDA) Loan relates to the sewer plant expansion project. The OWDA approved up to \$1,846,956 in loans to the Village for this project. The Village will repay the Loan in semiannual installments of \$73,575, including interest, over 20 years. The scheduled payment amount below assumes that \$1,411,000 will be borrowed. Water and sewer user fees collateralize the Loan.

The Ohio Public Works Commission (OPWC) Loans relate to the sewer plant expansion project and the Waste Water Treatment Plant – Catch Basin. The OPWC has approved up to \$600,000 in interest free loans to the Village for these projects. These Loans will be repaid in semiannual installments of \$20,379 over 20 years. Water and sewer user fees collateralize the Loans.

The Promissory Note was issued December 13, 1995 for \$86,000 to finance renovation of the Village's water tower. The Note will be repaid in twenty annual installments of \$7,437, including interest. Water user fees collateralize the Note.

The General Obligation Note was issued in 2003 to retire two previously issued Notes used to purchase a fire truck and street sweeper. The Note is collateralized by the Village's taxing authority and will be repaid in three annual installments.

Amortization of the above debt, including interest, follows:

Year ending December 31:	OWDA Loan	OPWC Loans	General Obligation Notes	Promissory Note
2006	\$147,150	\$40,758	\$68,875	\$7,492
2007	147,150	40,758		7,492
2008	147,150	40,758		7,492
2009	147,150	40,758		7,492
2010	147,150	40,758		7,492
Subsequent	220,727	64,968		31,476
Total	\$956,477	\$268,758	\$68,875	\$68,936

**VILLAGE OF MCDONALD  
TRUMBULL COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND 2004  
(Continued)**

**7. RETIREMENT SYSTEMS**

The Village's law enforcement officers belong to the Ohio Police and Fire Pension Funds (OP&F). Other full-time 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 the plans' retirement benefits, including postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2005 and 2004, OP&F participants contributed 10 percent of their wages. The Village contributed an amount equal to 19.5 percent of police participant wages. OPERS members contributed 8.5 percent of their wages. The Village contributed an amount equal to 13.55 percent of participants' gross salaries. The Village has paid all contributions required through December 31, 2005.

**8. RISK MANAGEMENT**

**Commercial Insurance**

The Village has obtained commercial insurance for the following risks:

- Comprehensive property and general liability;
- Vehicles;
- Wrongful acts;
- Inland marine; and
- Crime.

The Village provides dental, vision, and health insurance benefits to full-time employees through a private carrier.

**9. LEGAL COMPLIANCE**

The Village Treasurer did not classify or summarize (i.e. did not post) receipts and disbursements to an accounting system. As a result, the Village Treasurer was unable to provide a cash reconciliation between the Village's records and the Village's depository cash balances. This situation was contrary to Ohio Rev. Code Section 733.43 which states, in part, the treasurer of a municipal corporation shall keep an accurate account of all moneys received by them, and all moneys disbursed by them.

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**Auditor of State  
Betty Montgomery**

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

Village of McDonald  
Trumbull County  
451 Ohio Avenue  
McDonald, Ohio 44437

To the Village Council:

We have audited the financial statements of the Village of McDonald, Trumbull County, (the Village) as of and for the years ended December 31, 2005 and 2004, and have issued our report thereon dated September 18, 2006, wherein we noted the Village prepared its financial statements using accounting practices the Auditor of State established 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 to determine our auditing procedures to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the Village's management dated September 18, 2006, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

**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 2005-001 to 2005-003. In a separate letter to the Village's management dated September 18, 2006, we reported another matter related to noncompliance we deemed immaterial.

Voinovich Government Center / 242 Federal Plaza W. / Suite 302 / Youngstown, OH 44503  
Telephone: (330) 797-9900 (800) 443-9271 Fax: (330) 797-9949  
[www.auditor.state.oh.us](http://www.auditor.state.oh.us)

Village of McDonald  
Trumbull County  
Independent Accountants' Report on Internal Control Over  
Financial Reporting and on Compliance and Other Matters  
Required by *Government Auditing Standards*  
Page 2

We intend this report solely for the information and use of the audit committee, management, and Village Council. It is not intended for anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

**Betty Montgomery**  
Auditor of State

September 18, 2006

**VILLAGE OF MCDONALD  
TRUMBULL COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2005 AND 2004**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2005-001**

**Noncompliance Citation**

**Certification of Availability of Funds**

**Ohio Rev. Code Section 5705.41(D)** states, in pertinent part, no orders or contracts involving the expenditure of money are to be made unless a certificate signed by the fiscal officer is attached. The fiscal officer must certify 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 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.

Then and Now Certificate: If the fiscal officer can certify that both at the time the contract or order was made "then" at the time that he is completing his certification "now", sufficient funds were available or in the process of collection, to the credit of a proper fund, free of any previous encumbrance, the taxing authority can authorize the drawing of a warrant for the payment of the amount due. The taxing authority has 30 days from the receipt of such certificate, to approve payment by resolution. If approval is not made within 30 days, there is no legal liability on the part of the subdivision or taxing authority.

Amounts of less than three thousand dollars (\$3,000) 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.

Blanket Certificate: Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution 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.

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 predicable 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 account.

The Fiscal Officer did not always obtain certification of available funds prior to incurring obligations and there was no evidence of a "Then and Now" certificate being used by the Fiscal Officer. Our test of thirty (30) expenditures in 2005 noted twenty-eight (28) instances whereby proper certification was not obtained. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

Unless the exceptions noted above are used, prior certification in the form of purchase orders or "blanket" purchase orders is not only required by statute, but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over the disbursement process and reduce the possibility of the Village's funds exceeding budgetary spending limitations, we recommend the Fiscal Officer certify the funds are or will be available prior to a commitment of an obligation by the Village. When prior certification is not possible, "then and now" certification should be used.

We recommend the Village certify purchases to which section 5705.41(D) applies. The Fiscal Officer should sign the certification at the time the Village incurs a commitment, and only when the requirements of 5705.41(D) are satisfied. The Fiscal Officer should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation

#### **Officials' Response**

The purchasing procedures of the Village have been in place for a very long time. Changing those procedures by utilizing the exceptions noted will require a fundamental difference in how the Village is run. We will examine this citation and work with the Auditor of State's Office to see if there is any method that will allow compliance with 5705.41(D) and still fit within the operations of the Village.

### **FINDING NUMBER 2005-002**

#### **Noncompliance Citation**

##### **Village Treasurer Duties**

**Ohio Rev. Code Section 733.43** states the treasurer of a municipal corporation shall keep an accurate account of:

- (A) All moneys received by him, showing the amount thereof, the time received by whom, and on what account received;
- (B) All disbursements made by him, showing the amount thereof, the time made, to whom, and on what account paid.

Further, the treasurer shall so arrange their books that the amount received and paid on account of separate funds, or specified appropriations, shall be exhibited in separate accounts.

The Village Treasurer did maintain a record of moneys received and disbursed by the Village comprised of the pay-in-order receipts and cancelled disbursement checks respectively. However, the Village Treasurer did not classify or summarize (i.e. did not post) receipts and disbursements to an accounting system. As a result, the Village Treasurer was unable to present for audit a cash reconciliation between the Village's records and the Village's depository cash balances.



The Village's depositories included a general checking account, a payroll checking account, and a checking account from a prior self insurance program of the Village. Due to the lack of a cash reconciliation, the audit was suspended, and the Village was given 90 days to correct the situation. Ultimately, an adjustment was required to increase the fund balances of the Village by \$3,694 to reconcile with the amounts on deposit with the Village's financial institutions.

We recommend the Village Treasurer set up and maintain a cash journal for posting every receipt and expenditure. An example of a cash journal can be found in Chapter 5 – Uniform System of Accounting of the Village Officer's Handbook. When money is received and deposited, an entry should be made in the receipt column and the cash balance increased. When a disbursement check is cleared by the checking account, an entry should be made in the disbursement column and the cash balance reduced.

Another section of the cash journal should be maintained for each fund of the Village. When money is received for a specific fund, it should be recorded in the receipt column and the fund balance increased. When a disbursement check of a specific fund is cleared by the bank, it should be recorded in the expenditure column and the fund balance decreased.

The total of all fund balances must reconcile with the cash balance, the total of all fund receipts must balance with the total cash receipts, and the total of all fund expenditures must reconcile with the cash expenditures. Once the cash journal accounts are reconciled monthly, the Treasurer should compare the cash balance with the total fund ledger balance maintained by the Village Clerk. Any differences should be identified and corrections made, if applicable, to the respective funds.

We also recommend the Treasurer prepare a monthly reconciliation between the Village's depositories and the Fiscal Officer's total fund ledger balance. An example of such a reconciliation can be found in Chapter 5 – Bank Reconciliation of the Village Officer's Handbook. The Treasurer should follow the steps outlined in the example which will result in an accurate and complete reconciliation between the adjusted cash fund balances and the adjusted bank statement balances.

### **Officials' Response**

The books of the Village have been correctly reconciled and balanced as of January 31, 2006. We do not anticipate further problems in this area.

## **FINDING NUMBER 2005-003**

### **Noncompliance Citation**

#### **Certification of Availability of Revenue**

**Ohio Rev. Code Section 5705.36** requires that on or about the first day of each fiscal year, the fiscal officers of political subdivisions and other taxing units certify to the county auditor the total amount of all sources available for expenditures from each fund in the tax budget along with any unencumbered balances that existed at the end of the preceding year. Based upon this information and estimates provided by the Village's management and County Auditor, the County Budget Commission shall certify the estimated receipts for the year by means of a certificate of estimated resources.

For the year ended December 31, 2005, the Village did not submit the fund balances on January 1 to the County Auditor as required. Therefore, the Village did not receive a certificate of estimated resources from the County Budget Commission. The Village may have passed appropriations based on outdated or inaccurate estimates of available revenue which could result in negative fund balances.

We recommend the Fiscal Officer file the cash fund balances on the prescribed form to the County Auditor on or about January 1 of each year. The final appropriations should not be passed until a certificate of estimated resources is received from the County Budget Commission.

**Officials' Response**

The lack of a certificate from the County Auditor we believe was a clerical error. It has been corrected for 2006. We do not anticipate further problems in this area.

**VILLAGE OF MCDONALD  
TRUMBULL COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2005**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2003-001	Finding for Recovery in the amount of \$1,292.89 against the former Village Clerk, Wendy Kosovec	No	A trial on the small claims complaint against Wendy Kosovec has been scheduled for October, 2006.
2003-002	Violation of Ohio Rev. Code Section 5705.41(D) for failure of the Fiscal Officer to certify available funds prior to incurring obligations or expenditure of money.	No	Repeated as finding 2005-001.
2003-003	Contrary to Ohio Rev. Code Section 733.43, the Treasurer did not keep an accurate account of all moneys received or disbursed by the Village.	No	Repeated as finding 2005-002.





**Auditor of State  
Betty Montgomery**

88 East Broad Street  
P.O. Box 1140  
Columbus, Ohio 43216-1140

Telephone 614-466-4514  
800-282-0370

Facsimile 614-466-4490

**VILLAGE OF McDONALD**

**TRUMBULL COUNTY**

**CLERK'S CERTIFICATION**

**This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.**

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
NOVEMBER 9, 2006**