



**Auditor of State
Betty Montgomery**

VILLAGE OF MCDONALD
TRUMBULL COUNTY

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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, 2003 and 2002. 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 discussed in Note 1, the Village prepares its financial statements on the basis of accounting prescribed or permitted by the Auditor of State, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of the Village of McDonald, Trumbull County, as of December 31, 2003 and 2002, and its combined cash receipts and disbursements for the years then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 30, 2005, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

Betty Montgomery
Auditor of State

December 30, 2005

**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, 2003**

	<u>Governmental Fund Types</u>				Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	
Cash Receipts:					
Property Tax and Other Local Taxes	\$134,892				\$134,892
Intergovernmental Receipts	123,680	\$204,886		\$54,931	383,497
Charges for Services	14,099	4,246			18,345
Fines, Licenses, and Permits	46,325	28,905			75,230
Earnings on Investments	27,425				27,425
Miscellaneous	32,300	247		14,310	46,857
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Total Cash Receipts	378,721	238,284	0	69,241	686,246
Cash Disbursements:					
Current:					
Security of Persons and Property	344,610	109,819			454,429
Public Health Services	5,683				5,683
Leisure Time Activities	26,522				26,522
Community Environment	3,379				3,379
Basic Utility Services	154,021				154,021
Transportation	731	352,789			353,520
General Government	308,133	62			308,195
Debt Service:					
Principal Payments			\$54,494		54,494
Interest Payments			9,998		9,998
Capital Outlay				126,400	126,400
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Total Cash Disbursements	843,079	462,670	64,492	126,400	1,496,641
Total Receipts Over/(Under) Disbursements	(464,358)	(224,386)	(64,492)	(57,159)	(810,395)
Other Financing Receipts and (Disbursements):					
Transfers-In	539,935	264,975	71,957	58,117	934,984
Transfers-Out	(24,253)	(1,405)			(25,658)
Other Financing Sources	1,182				1,182
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total Other Financing Receipts/(Disbursements)	516,864	263,570	71,957	58,117	910,508
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	52,506	39,184	7,465	958	100,113
Fund Cash Balances, January 1	76,361	58,311	(1,383)	133,838	267,127
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Fund Cash Balances, December 31	\$128,867	\$97,495	\$6,082	\$134,796	\$367,240
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Reserves for Encumbrances, December 31	\$0	\$0	\$0	\$23,400	\$23,400
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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, 2003**

	Proprietary Fund Types		Fiduciary Fund Types	Totals (Memorandum Only)
	Enterprise	Internal Service	Agency	
Operating Cash Receipts:				
Charges for Services	\$805,677			\$805,677
Miscellaneous	46,628		\$58,715	105,343
Total Operating Cash Receipts	852,305	0	58,715	911,020
Operating Cash Disbursements:				
Personal Services	201,307		98,124	299,431
Contractual Services	475,309			475,309
Supplies and Materials	58,482			58,482
General Government			64,662	64,662
Capital Outlay	506,485			506,485
Total Operating Cash Disbursements	1,241,583	0	162,786	1,404,369
Operating Income/(Loss)	(389,278)	0	(104,071)	(493,349)
Non-Operating Cash Receipts:				
Property Tax and Other Local Taxes			11,506	11,506
Intergovernmental Receipts	454,078		1,527	455,605
Earnings on Investments		\$804		804
Other Non-Operating Receipts		4,212	853,630	857,842
Total Non-Operating Cash Receipts	454,078	5,016	866,663	1,325,757
Non-Operating Cash Disbursements:				
Debt Service	116,391			116,391
Total Non-Operating Cash Disbursements	116,391	0	0	116,391
Excess of Receipts Over/(Under) Disbursements Before Interfund Transfers and Advances	(51,591)	5,016	762,592	716,017
Transfers-In	72,561		37,669	110,230
Transfers-Out	(45,000)		(974,557)	(1,019,557)
Net Receipts Over/(Under) Disbursements	(24,030)	5,016	(174,296)	(193,310)
Fund Cash Balances, January 1	548,863	54,406	899,425	1,502,694
Fund Cash Balances, December 31	\$524,833	\$59,422	\$725,129	\$1,309,384

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, 2002**

	<u>Governmental Fund Types</u>				Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	
Cash Receipts:					
Property Tax and Other Local Taxes	\$137,170				\$137,170
Intergovernmental Receipts	112,810	\$129,103		\$1,110	243,023
Charges for Services	13,390	17,963		3,124	34,477
Fines, Licenses, and Permits	38,085	3,071			41,156
Earnings on Investments	42,536				42,536
Miscellaneous	42,814	572		4,742	48,128
	<u>386,805</u>	<u>150,709</u>	<u>0</u>	<u>8,976</u>	<u>546,490</u>
Cash Disbursements:					
Current:					
Security of Persons and Property	344,990	66,833			411,823
Public Health Services	5,478				5,478
Leisure Time Activities	27,968				27,968
Community Environment	5,327				5,327
Basic Utility Services	146,599				146,599
Transportation	97,435	328,051			425,486
General Government	279,188				279,188
Debt Service:					
Principal Payments			\$61,819		61,819
Interest Payments			10,137		10,137
Capital Outlay				121,889	121,889
	<u>906,985</u>	<u>394,884</u>	<u>71,956</u>	<u>121,889</u>	<u>1,495,714</u>
Total Receipts Over/(Under) Disbursements	(520,180)	(244,175)	(71,956)	(112,913)	(949,224)
Other Financing Receipts and (Disbursements):					
Proceeds of Notes	93,954				93,954
Sale of Fixed Assets				410	410
Transfers-In	345,000	168,441	94,950	154,403	762,794
Transfers-Out	(19,589)			(47,000)	(66,589)
	<u>419,365</u>	<u>168,441</u>	<u>94,950</u>	<u>107,813</u>	<u>790,569</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(100,815)	(75,734)	22,994	(5,100)	(158,655)
Fund Cash Balances, January 1	177,176	134,045	(24,377)	138,938	425,782
Fund Cash Balances, December 31	<u>\$76,361</u>	<u>\$58,311</u>	<u>(\$1,383)</u>	<u>\$133,838</u>	<u>\$267,127</u>
Reserves for Encumbrances, December 31	<u>\$13,768</u>	<u>\$3,997</u>	<u>\$0</u>	<u>\$0</u>	<u>\$17,765</u>

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, 2002**

	Proprietary Fund Types		Fiduciary Fund Types	Totals (Memorandum Only)
	Enterprise	Internal Service	Agency	
Operating Cash Receipts:				
Charges for Services	\$831,830			\$831,830
Miscellaneous	16,468		\$40,488	56,956
Total Operating Cash Receipts	848,298	0	40,488	888,786
Operating Cash Disbursements:				
Personal Services	188,091	\$73	67,812	255,976
Contractual Services	372,809			372,809
Supplies and Materials	38,363			38,363
General Government			82,140	82,140
Capital Outlay	288,169			288,169
Total Operating Cash Disbursements	887,432	73	149,952	1,037,457
Operating Income/(Loss)	(39,134)	(73)	(109,464)	(148,671)
Non-Operating Cash Receipts:				
Property Tax and Other Local Taxes			11,183	11,183
Intergovernmental Receipts			1,400	1,400
Proceeds from Loans	107,586			107,586
Earnings on Investments		903		903
Other Non-Operating Receipts			874,244	874,244
Total Non-Operating Cash Receipts	107,586	903	886,827	995,316
Non-Operating Cash Disbursements:				
Debt Service	239,318			239,318
Other Non-Operating Cash Disbursements	2,781			2,781
Total Non-Operating Cash Disbursements	242,099	0	0	242,099
Excess of Receipts Over/(Under) Disbursements Before Interfund Transfers and Advances	(173,647)	830	777,363	604,546
Transfers-In	241,682		99,087	340,769
Transfers-Out	(103,500)		(933,474)	(1,036,974)
Net Receipts Over/(Under) Disbursements	(35,465)	830	(57,024)	(91,659)
Fund Cash Balances, January 1	584,328	53,576	956,449	1,594,353
Fund Cash Balances, December 31	\$548,863	\$54,406	\$899,425	\$1,502,694
Reserve for Encumbrances, December 31	\$7,633	\$0	\$5,393	\$13,026

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, 2003 AND 2002**

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, 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 Fund

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:

**VILLAGE OF MCDONALD
TRUMBULL COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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).

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 revenue received is transferred to other funds and used to meet the general 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.

**VILLAGE OF MCDONALD
TRUMBULL COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, object 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. Unencumbered appropriations lapse at year end.

2. Estimated Resources

Estimated resources include estimates of cash to be received (budgeted receipts) plus unencumbered 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 carried over, and need not be reappropriated.

A summary of 2003 and 2002 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.

**VILLAGE OF MCDONALD
TRUMBULL COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)**

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:

	2003	2002
Demand deposits	\$6,813	\$46,593
Certificates of deposit	703,316	708,820
Total deposits	710,129	755,413
STAR Ohio	243,077	240,404
Repurchase agreement	723,418	774,004
Total investments	966,495	1,014,408
Total deposits and investments	\$1,676,624	\$1,769,821

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

Investments: 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. Investments in STAR Ohio are not evidenced by securities that exist in physical or book-entry form.

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2003 and 2002 follows:

2003 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$1,096,125	\$919,838	(\$176,287)
Special Revenue	514,660	503,259	(11,401)
Debt Service	64,491	71,957	7,466
Capital Projects	197,973	127,358	(70,615)
Enterprise	1,619,750	1,378,944	(240,806)
Internal Service	21,196	5,016	(16,180)
Fiduciary	945,814	963,047	17,233
Total	\$4,460,009	\$3,969,419	(\$490,590)

**VILLAGE OF MCDONALD
TRUMBULL COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)**

3. BUDGETARY ACTIVITY (Continued)

2003 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$1,034,868	\$867,332	\$167,536
Special Revenue	506,633	464,075	42,558
Debt Service	82,389	64,492	17,897
Capital Projects	151,000	149,800	1,200
Enterprise	1,656,565	1,402,974	253,591
Internal Service	2,000	0	2,000
Fiduciary	1,256,490	1,137,343	119,147
Total	<u>\$4,689,945</u>	<u>\$4,086,016</u>	<u>\$603,929</u>

2002 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$769,660	\$825,759	\$56,099
Special Revenue	438,879	319,150	(119,729)
Debt Service	71,938	94,950	23,012
Capital Projects	198,650	163,789	(34,861)
Enterprise	1,651,260	1,197,566	(453,694)
Internal Service	1,200	903	(297)
Fiduciary	949,272	1,026,402	77,130
Total	<u>\$4,080,859</u>	<u>\$3,628,519</u>	<u>(\$452,340)</u>

2002 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$960,400	\$940,342	\$20,058
Special Revenue	556,819	398,881	157,938
Debt Service	94,934	71,956	22,978
Capital Projects	313,200	168,889	144,311
Enterprise	1,654,440	1,240,664	413,776
Internal Service	2,000	73	1,927
Fiduciary	1,021,639	1,088,819	(67,180)
Total	<u>\$4,603,432</u>	<u>\$3,909,624</u>	<u>\$693,808</u>

Contrary to Ohio law, the Village did not certify all purchases prior to the obligations being incurred in all funds.

**VILLAGE OF MCDONALD
TRUMBULL COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)**

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.

6. DEBT

Debt outstanding at December 31, 2003 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
OWDA Loans	\$960,545	5.00%
OPWC Loans	339,517	0.00%
General Obligation Note	7,761	4.50%
Promissory Note	189,559	4.00%
Water Tower Note	56,735	5.90%
Total	<u>\$1,554,117</u>	

The Water Tower 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 Village issued the General Obligation Note in 2001 for \$22,320 to purchase a chipper. The Note will be paid in full in 2004. The Village's taxing authority collateralizes the Note.

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

**VILLAGE OF MCDONALD
TRUMBULL COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)**

6. DEBT (Continued)

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 Ohio Water Development Authority (OWDA) Loans relate 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.

Amortization of the above debt, including interest, follows:

Year ending December 31	Water Tower Renovation Revenue Note	General Obligation Note	Promissory Note	OPWC Loans	OWDA Loans
2004	\$7,492	\$8,328	\$66,388	\$40,758	\$147,150
2005	7,492		66,388	40,758	147,150
2006	7,492		65,582	40,758	147,150
2007	7,492			40,758	147,150
2008	7,492			40,758	147,150
Subsequent	46,460			135,727	367,877
Total	<u>\$83,920</u>	<u>\$8,328</u>	<u>\$198,358</u>	<u>\$339,517</u>	<u>\$1,103,627</u>

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 2003 and 2002, 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, 2003.

**VILLAGE OF MCDONALD
TRUMBULL COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)**

8. RISK MANAGEMENT

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.



**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, 2003 and 2002, and have issued our report thereon dated December 30, 2005. 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 December 30, 2005, 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 we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2003-001 to 2003-003. In a separate letter to the Village's management dated December 30, 2005, we reported other matters related to noncompliance we deemed immaterial.

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

December 30, 2005

**VILLAGE OF MCDONALD
TRUMBULL COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2003 AND 2002**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2003-001

Finding for Recovery

The Village maintains a Health and Welfare Fund to account for unspent monies collected on a cost per employee basis from the other Village funds to finance a self-insurance program that has since been terminated by Council. The monies are deposited in an interest-bearing checking account at Second National Bank entitled Village of McDonald Health and Welfare. On February 15, 2002, a check paid to the order of "cash" was drawn against the Village of McDonald Health and Welfare checking account in the amount of \$1,292.89. The check was signed and endorsed by the former Village Clerk, Wendy Kosovec.

An audit of the Village receipts and disbursements fund ledgers found that the check paid to "cash" was not posted to the Health and Welfare Fund or any other fund. In addition, there were no documents to support the cash withdrawal as a valid transaction of the Village.

In accordance with the foregoing facts, and pursuant to Ohio Revised Code Section 117.28, a Finding for Recovery for public money collected but unaccounted for is hereby issued, jointly and severally, against Wendy Kosovec, former Village Clerk, and the Old Republic Surety Company of Brookfield, Wisconsin, in the amount of one thousand two hundred ninety two dollars and eighty nine cents (\$1,292.89), and in favor of the Village's Health and Welfare Fund.

FINDING NUMBER 2003-002

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.

Certification of Availability of Funds (Continued)

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. (Prior to April 7, 2003, the amount that may be paid was less than \$1,000.)

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. (Prior to September 26, 2003, blanket certificates were limited to \$5,000 and three months.) 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 Clerk 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 Clerk. Our test of thirty (30) expenditures in 2003 noted 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 Clerk 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 most convenient certification method is to use purchase orders that include the certification language 5705.41(D) requires to authorize disbursements. The Clerk should sign the certification at the time the Village incurs a commitment, and only when the requirements of 5705.41(D) are satisfied. The Clerk should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation

FINDING NUMBER 2003-003

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;

Village Treasurer Duties (Continued)

- (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 his 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 receipts and disbursements supported by these documents were not exhibited and arranged in separate funds and accounts as required by the statute. 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 \$8,124 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 Clerk'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.

**VILLAGE OF MCDONALD
TRUMBULL COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2003 AND 2002**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2001-001	O.R.C. Section 733.28 The Clerk did not keep the Village books or exhibit accurate statements of all moneys received and expended.	No	Partially corrected. We repeated the citation in the management letter.
2001-002	O.R.C. Section 733.43 The Treasurer did not keep an accurate account of all moneys received or all disbursements made by him.	No	Not corrected. Repeated as Finding 2003-003.
2001-003	O.R.C. Section 5705.10 Negative fund balance in the Debt Service fund.	No	Partially corrected. We repeated the citation in the management letter for a deficit at year ended December 31, 2002.
2001-004	The Village did not enroll its fulltime policeman in the Ohio Police and Fire Pension fund, rather they were enrolled in the Public Employees Retirement System.	Yes	
2001-005	The Village failed to make the principal and interest payments for two notes in 2000.	Yes	
2001-006	The Village was inaccurately calculating employee contributions to PERS.	Yes	



**Auditor of State
Betty Montgomery**

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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
FEBRUARY 28, 2006**