



**Auditor of State
Betty Montgomery**

VILLAGE OF MCDONALD
TRUMBULL COUNTY

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Auditor of State Betty Montgomery

REPORT OF INDEPENDENT ACCOUNTANTS

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 (the Village) as of and for the years ended December 31, 2001 and 2000. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As 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 of the Village as of December 31, 2001 and 2000, 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 17, 2003 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

This report is intended solely for the information and use of the management and Village Council and other officials authorized to receive this report under § 117.26, Ohio Revised Code, and is not intended to be and should not be used by 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 17, 2003

**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, 2001**

	<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	\$122,310				\$122,310
Special Assessments				34,250	34,250
Intergovernmental Receipts	130,109	141,596			271,705
Charges for Services		25,952		900	26,852
Fines, Licenses, and Permits	25,268	2,723			27,991
Earnings on Investments	87,353				87,353
Miscellaneous	49,025				49,025
Total Cash Receipts	<u>414,065</u>	<u>170,271</u>		<u>35,150</u>	<u>619,486</u>
Cash Disbursements:					
Current:					
Security of Persons and Property	358,635	46,521			405,156
Public Health Services	18,218				18,218
Leisure Time Activities	28,473				28,473
Community Environment	4,790				4,790
Basic Utility Services	140,688				140,688
Transportation		319,555			319,555
General Government	233,775	900			234,675
Debt Service:					
Principal Payments	28,825		83,892		112,717
Debt service Payments					
Capital Outlay		4,469		384,729	389,198
Total Cash Disbursements	<u>813,404</u>	<u>371,445</u>	<u>83,892</u>	<u>384,729</u>	<u>1,653,470</u>
Total Receipts Over/(Under) Disbursements	<u>(399,339)</u>	<u>(201,174)</u>	<u>(83,892)</u>	<u>(349,579)</u>	<u>(1,033,984)</u>
Other Financing Receipts and (Disbursements):					
Proceeds from Sale of Debt	28,178			170,270	198,448
Other Financing Uses	937				937
Transfers-In	350,000	215,000	58,400	258,377	881,777
Transfers-Out	(36,989)				(36,989)
Total Other Financing Receipts/(Disbursements)	<u>342,126</u>	<u>215,000</u>	<u>58,400</u>	<u>428,647</u>	<u>1,044,173</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	<u>(57,213)</u>	<u>13,826</u>	<u>(25,492)</u>	<u>79,068</u>	<u>10,189</u>
Fund Cash Balances, January 1	<u>234,389</u>	<u>120,222</u>	<u>1,115</u>	<u>59,870</u>	<u>415,596</u>
Fund Cash Balances, December 31	<u>\$177,176</u>	<u>\$134,048</u>	<u>(\$24,377)</u>	<u>\$138,938</u>	<u>\$425,785</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, 2001**

	<u>Proprietary Fund Types</u>		<u>Fiduciary Fund Types</u>	<u>Total Proprietary Fund Types</u>
	<u>Enterprise</u>	<u>Internal Service</u>	<u>Agency</u>	
Operating Cash Receipts:				
Micellaneous		\$1,608		\$1,608
Charges for Services	\$914,386	\$228		\$914,614
Miscellaneous				
Total Operating Cash Receipts	<u>914,386</u>	<u>1,836</u>		<u>916,222</u>
Operating Cash Disbursements:				
Personal Services	180,135	559	123,561	\$304,255
Travel Transportation	15,045			\$15,045
Contractual Services	285,948		8,372	\$294,320
Supplies and Materials	15,101		4,740	\$19,841
General Government			6,529	\$6,529
Capital Outlay	106,593		1,525	\$108,118
Total Operating Cash Disbursements	<u>602,822</u>	<u>559</u>	<u>144,727</u>	<u>748,108</u>
Operating Income/(Loss)	<u>311,564</u>	<u>1,277</u>	<u>(144,727)</u>	<u>168,114</u>
Non-Operating Cash Receipts:				
Property Tax and Other Local Taxes				
Intergovernmental Receipts				
Proceeds from Notes and Bonds				
Other Non-Operating Receipts			901,965	\$901,965
Total Non-Operating Cash Receipts			<u>901,965</u>	<u>901,965</u>
Non-Operating Cash Disbursements:				
Debt Service	207,025			\$207,025
Other Non-Operating Cash Disbursements				
Total Non-Operating Cash Disbursements	<u>207,025</u>			<u>207,025</u>
Excess of Receipts Over/(Under) Disbursements Before Interfund Transfers and Advances	104,539	1,277	757,238	863,054
Transfers-In	96,915		92,143	189,058
Transfers-Out	(90,000)		(943,846)	(1,033,846)
Net Receipts Over/(Under) Disbursements	111,454	1,277	(94,465)	18,266
Fund Cash Balances, January 1	472,874	52,299	1,050,914	\$1,576,087
Fund Cash Balances, December 31	<u>\$584,328</u>	<u>\$53,576</u>	<u>\$956,449</u>	<u>\$1,594,353</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 GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2000**

	<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	\$125,849				\$125,849
Intergovernmental Receipts	148,790	146,683		200,586	496,059
Charges for Services		29,315			29,315
Fines, Licenses, and Permits	25,826	8,509			34,335
Earnings on Investments	96,798				96,798
Miscellaneous	24,635				24,635
Total Cash Receipts	<u>421,898</u>	<u>184,507</u>		<u>200,586</u>	<u>806,991</u>
Cash Disbursements:					
Current:					
Security of Persons and Property	401,298	67,130		44,278	512,706
Public Health Services	12,238				12,238
Leisure Time Activities	25,275			102,957	128,232
Community Environment	5,801			104,504	110,305
Basic Utility Services	136,683			24,641	161,324
Transportation		290,863		220,746	511,609
General Government	192,361	1,156			193,517
Capital Outlay	45,837				45,837
Total Cash Disbursements	<u>819,493</u>	<u>359,149</u>		<u>497,126</u>	<u>1,675,768</u>
Total Receipts Over/(Under) Disbursements	<u>(397,595)</u>	<u>(174,642)</u>		<u>(296,540)</u>	<u>(868,777)</u>
Other Financing Receipts and (Disbursements):					
Proceeds from Sale of Public Debt	45,837				45,837
Sale of Land				28,800	28,800
Other Financing Uses	(1,724)				(1,724)
Transfers-In	550,300	210,000		132,175	892,475
Transfers-Out	(53,762)			(120,000)	(173,762)
Total Other Financing Receipts/(Disbursements)	<u>540,651</u>	<u>210,000</u>		<u>40,975</u>	<u>791,626</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	<u>143,056</u>	<u>35,358</u>		<u>(255,565)</u>	<u>(77,151)</u>
Fund Cash Balances, January 1	<u>91,333</u>	<u>84,864</u>	<u>1,115</u>	<u>315,435</u>	<u>492,747</u>
Fund Cash Balances, December 31	<u><u>\$234,389</u></u>	<u><u>\$120,222</u></u>	<u><u>\$1,115</u></u>	<u><u>\$59,870</u></u>	<u><u>\$415,596</u></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, 2000**

	<u>Proprietary Fund Types</u>		<u>Fiduciary Fund Types</u>	<u>Total Proprietary Fund Types</u>
	<u>Enterprise</u>	<u>Internal Service</u>	<u>Agency</u>	
Operating Cash Receipts:				
Interest				
Charges for Services	\$922,088	\$24,267		\$946,355
Total Operating Cash Receipts	<u>922,088</u>	<u>24,267</u>		<u>946,355</u>
Operating Cash Disbursements:				
Personal Services	178,415	33,868	93,378	\$305,661
Travel Transportation	2,462			\$2,462
Contractual Services	296,122			\$296,122
Supplies and Materials	14,987			\$14,987
Capital Outlay	106,260			\$106,260
Total Operating Cash Disbursements	<u>598,246</u>	<u>33,868</u>	<u>93,378</u>	<u>725,492</u>
Operating Income/(Loss)	<u>323,842</u>	<u>(9,601)</u>	<u>(93,378)</u>	<u>220,863</u>
Non-Operating Cash Receipts:				
Other Non-Operating Receipts		1,217	968,400	\$969,617
Total Non-Operating Cash Receipts		<u>1,217</u>	<u>968,400</u>	<u>969,617</u>
Non-Operating Cash Disbursements:				
Debt Service	162,151			\$162,151
Total Non-Operating Cash Disbursements	<u>162,151</u>			<u>162,151</u>
Excess of Receipts Over/(Under) Disbursements Before Interfund Transfers and Advances	161,691	(8,384)	875,022	1,028,329
Transfers-In	70,050		187,037	\$257,087
Transfers-Out	(60,000)		(915,800)	(\$975,800)
Net Receipts Over/(Under) Disbursements	171,741	(8,384)	146,259	309,616
Fund Cash Balances, January 1	<u>301,133</u>	<u>60,683</u>	<u>904,655</u>	<u>\$1,266,471</u>
Fund Cash Balances, December 31	<u>\$472,874</u>	<u>\$52,299</u>	<u>\$1,050,914</u>	<u>\$1,576,087</u>

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, 2001 AND 2000**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Village of McDonald, Trumbull County, (the Village) is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Village is directed by a publicly-elected six-member Council. The Village provides general services, including water and sewer utilities, 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 basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as prescribed or permitted by the Auditor of State.

C. Cash and Investments

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or disbursements, respectively.

The Village uses a local bank to manage its' cash investments. Each night the bank balance is swept into an overnight repurchase agreement.

The investment in STAR Ohio (the State Treasurer's investment pool) is valued at amounts reported by the State Treasurer.

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 is the general operating fund. It is used to account for all financial resources except those required to be accounted for in another fund.

2. Special Revenue Fund

These funds are used to 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:

**VILLAGE OF MCDONALD
TRUMBULL COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000
(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

These funds are used to accumulate resources for the payment of bonds and note indebtedness.

4. Capital Project Funds

This fund is used to account for receipts that are restricted for the acquisition or construction of 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 that the significant costs of providing certain goods or services will be recovered through user charges. The Village had the following significant Enterprise Funds:

Water Fund - This fund receives charges for services from residents to cover the cost of providing this utility.

Sewer Fund - This fund receives charges for services from residents to cover the cost of providing this utility.

6. 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 fiduciary 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.

E. Budgetary Process

The Ohio Revised Code requires that each fund be budgeted annually.

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund level of control within each fund except the general fund which is at the fund, function, department level of control, and appropriations may not exceed estimated resources. The 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.

**VILLAGE OF MCDONALD
TRUMBULL COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

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 2001 and 2000 budgetary activity appears in Note 3.

F. Property, Plant and Equipment

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements.

G. Accumulated Leave

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the Village's basis of accounting.

2. EQUITY IN POOLED CASH AND INVESTMENTS

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

	2001	2000
Demand deposits	(\$56,112)	\$50,445
Total deposits	(56,112)	50,445
Sweep Account	1,146,615	1,048,593
STAR Ohio	929,635	892,645
Total investments	2,076,250	1,941,238
Total deposits and investments	\$2,020,138	\$1,991,683

Deposits: Deposits are either (1) insured by the Federal Depository Insurance Corporation, or (2) 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.

**VILLAGE OF MCDONALD
TRUMBULL COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000
(Continued)**

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2001 and 2000 follows:

2001 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$896,093	\$793,180	(\$102,913)
Special Revenue	422,600	385,271	(37,329)
Debt Service	58,400	58,400	0
Capital Projects	509,427	463,797	(45,630)
Enterprise	1,074,100	1,011,301	(62,799)
Internal Service	1,500	1,836	336
Agency	1,045,735	994,108	(51,627)
Total	<u>\$4,007,855</u>	<u>\$3,707,893</u>	<u>(\$299,962)</u>

2001 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$971,254	\$850,393	\$120,861
Special Revenue	432,910	371,445	61,465
Debt Service	58,400	83,892	(25,492)
Capital Projects	569,008	384,729	184,279
Enterprise	1,017,525	692,822	324,703
Internal Service	5,000	559	4,441
Agency	1,142,707	1,088,573	54,134
Total	<u>\$4,196,804</u>	<u>\$3,472,413</u>	<u>\$724,391</u>

2000 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$885,343	\$1,018,035	\$132,692
Special Revenue	416,034	394,507	(21,527)
Debt Service	29,000	0	(29,000)
Capital Projects	490,193	361,561	(128,632)
Enterprise	1,013,300	992,138	(21,162)
Internal Service	62,500	25,484	(37,016)
Agency	947,415	1,155,437	208,022
Total	<u>\$3,843,785</u>	<u>\$3,947,162</u>	<u>\$103,377</u>

**VILLAGE OF MCDONALD
TRUMBULL COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000
(Continued)**

3. BUDGETARY ACTIVITY – (Continued)

2000 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$865,907	\$874,979	(\$9,072)
Special Revenue	420,322	359,149	61,173
Debt Service	29,000	0	29,000
Capital Projects	802,179	617,126	185,053
Enterprise	1,027,288	820,397	206,891
Internal Service	60,500	33,868	26,632
Agency	1,009,300	1,009,178	122
Total	<u>\$4,214,496</u>	<u>\$3,714,697</u>	<u>\$499,799</u>

Contrary to Ohio law we noted the Debt Service Fund had a negative cash balances as of December 31, 2001.

4. PROPERTY TAX

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

Tangible personal property tax is assessed by the property owners, who must file a list of such property to the County by each April 30. The County is responsible for assessing property, and for billing, collecting, and distributing all property taxes on behalf of the Village.

5. 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, 2001 AND 2000
(Continued)**

6. DEBT

Debt outstanding at December 31, 2001 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Ohio Water Development Authority Loans	\$1,102,095	5.00%
Ohio Public Works Commissions Loans	300,000	0.00%
General Obligation Notes	243,443	4.65%-5.25%
Water Tower Renovation	69,705	5.90%
Total	<u>\$1,715,243</u>	

The Water Tower Renovation Notes were issued for \$86,000 at an interest rate of 5.9% for the renovation of the Village's water tower. The note was entered into on December 13, 1995 for a period of 20 years. The notes will be repaid in annual installments of \$7,437, including interest, over the twenty year term. The notes will be repaid by user fees.

The General Obligation Notes of the Village were as follows: \$145,000 at an interest rate of 4.65% for the Village's 1997 street paving project, \$45,837 at an interest rate of 5.25% for the purchase of a dump truck, and \$170,270 at an interest rate of 5.20% for the purchase of a new fire truck. The terms require payments to be made annually. The notes are to be repaid with the general operating funds of the Village.

The Ohio Public Works Commission (OPWC) loans relate to the sewer plant expansion project. The OPWC has approved up to \$600,000 in interest free loans to the Village for this project. These loans will be repaid in semiannual installments of \$15,000 over 20 years. This loan will be repaid by user fees.

The Ohio Water Development Authority (OWDA) loan relates to sewer plant expansion project. The OWDA has approved up to \$1,846,956 in loans to the Village for this project. The loans will be repaid in semiannual installments of \$73,575, including 5% interest, over 20 years. This loan will be repaid by user fees.

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

	<u>Water Tower Renovation Revenue Note</u>	<u>General Obligation Notes</u>	<u>OPWC Loans</u>	<u>OWDA Loans</u>
Year ending December 31:				
2002	\$7,492	\$92,286	\$30,000	\$147,150
2003	7,492	63,207	30,000	147,150
2004	7,492	39,485	30,000	147,150
2005	7,492	39,485	30,000	147,150
2006	7,492	39,485	30,000	147,150
Subsequent	37,460	0	150,000	735,750
Total	<u>\$74,920</u>	<u>\$273,948</u>	<u>\$300,000</u>	<u>\$1,471,500</u>

Contrary to the Debt Agreements the Village failed to make principal and interest payments on two notes obligations during the fiscal year ended December 31, 2000.

**VILLAGE OF MCDONALD
TRUMBULL COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000
(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 Public Employees Retirement System (PERS) of Ohio. OP&F and PERS are cost-sharing, multiple-employer plans. These plans provide retirement benefits, including postretirement healthcare, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code.

Contribution rates are also prescribed by the Ohio Revised Code. For 2001 and 2000, OP&F participants contributed 10% of their wages. The Village contributed an amount equal to 19.5% of police participant wages. PERS members contributed 8.5% of their wages. The Village contributed an amount equal to 13.55% of participants' gross salaries. With the exception of the instances noted in the following paragraph the Village has paid all contributions required through December 31, 2001.

Contrary to Ohio Revised Code Section 742.31 through 742.35 the village failed to properly pay Ohio Police and Fire Pension Fund for three police officers.

Contrary to IRS regulations regarding employee pick-up of PERS contributions the Village contributed 8.5% of the employee cash payment instead of 8.5% of both the employees cash payments and the employer pick-up.

8. LEGAL COMPLIANCE

Contrary to Ohio Revised Code Section 733.28 and Section 733.43 both the Village Clerk and the Treasurer failed to keep the books and financial records and reconcile such records as required.

9. RISK MANAGEMENT

The Village has obtained commercial insurance for the following risks:

- Comprehensive property and general liability
- Vehicles
- Wrongful Acts
- Inland Marine
- Crime

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

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**Auditor of State
Betty Montgomery**

**REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE AND ON INTERNAL CONTROL
REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

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

To the Members of Council:

We have audited the accompanying financial statements of Village of McDonald (the Village) as of and for the years ended December 31, 2001 and December 31, 2000, and have issued our report thereon dated December 17, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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 grants, 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 that are required to be reported herein under *Government Auditing Standards* which are described in the accompanying Schedule of findings as items 2001-001 through 2001-006. We also noted certain immaterial instances of noncompliance that we have reported to management of the Village of McDonald in a separate letter dated December 17, 2003.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a 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 in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Village in a separate letter dated December 17, 2003.

Village of McDonald
Trumbull County
Report of Independent Accountants on Compliance and on Internal Control
Required by *Government Auditing Standards*
Page 2

This report is intended solely for the information and use of management and the Village Council, and is not intended to be and should not be used by 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 17, 2003

**VILLAGE OF MCDONALD
TRUMBULL COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2001 AND 2000**

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

FINDING NUMBER 2001-001

Ohio Revised Code Section 733.28 states the Village clerk shall keep the books of the Village, exhibit accurate statements of all moneys received and expended, of all property owned by the Village and income derived there from, and all taxes and assessments.

The Village Clerk did not keep the Village books, exhibit accurate statements of all moneys received and expended, of all property owned by the Village and the income derived there from, and all taxes and assessments for the period January 1, 2000 through December 31, 2001.

The following net adjustments were the results of the audit of the Village's 2000 and 2001 financial statements. These adjustments were agreed to by the Village and are reflected on the financial statements included within this report:

	<u>2000</u>	<u>2001</u>
General Fund Type	\$538,191	\$ (2,406)
Special Revenue Fund Type	2,554	3,971
Debt Service Fund Type	0	(54,892)
Capital Project Fund Type	(120,266)	23,487
Enterprise Fund Type	1,832	19,737
Internal Service Fund Type	629	88
Agency Fund Type	120,993	63,962

We recommend that the Village Clerk comply with this section of the Revised Code.

FINDING NUMBER 2001-002

Ohio Revised 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, from 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.

He 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's accounts were not maintained accurately as evidenced by unreconcilable differences between the Treasurer's accounts and the Villages depository balances which resulted in an unauditible situation and a 90 day letter being issued requesting the Village to correct these weaknesses. In addition the Treasurer failed to keep accurate accounts of the Village Payroll and Self-Insurance Fund neither of which reconciled with their respective depository.

We recommend that the Treasurer comply with this section of the Ohio Revised Code.

FINDING NUMBER 2001-003

Ohio Revised Code Section 5705.10 requires that all revenue derived from a source other than the general property tax and which the law prescribes shall be used for a particular purpose and paid into a special fund for such purpose.

Whenever negative cash balances exist, the cash balance from one fund is being used to support the activities of another fund. The Debt Service Fund had a negative fund balance of \$ 24,377 at the end of 2001.

We recommend that the Village implement procedures to comply with this section of the Ohio Revised Code.

FINDING NUMBER 2001-004

The Village did not enroll its fulltime policemen in the Ohio police and fire pension fund, rather, they were enrolled in the Public Employees Retirement System from November 1995 through January 2000.

Ohio Revised Code Section 742.31 states in part "Each employee shall contribute to the Ohio police and fire pension fund. The amount shall be deducted by the employer from the employee's salary".

Ohio Revised Code Section 742.32 states in part "The fiscal officer of each employer shall transmit monthly to the secretary of the board of trustees of the Ohio police and fire pension fund a report of employee deductions in such form as the board requires...Where an employer fails or refuses to deduct contributions for any employee and transmit such amounts to the fund, the board may make a determination of the employee's liability for contributions and certify to the employer the amounts due for collection in the same manner and subject to the same penalties as payments due the employer's contribution funds".

Ohio Revised Code Section 742.33 (A) provides each employer shall pay quarterly, from its general fund or from a levy imposed pursuant to division (J) or (W) of Section 5705.19 of the Revised Code, to the fund an amount known as the "policemen employer's contribution." Ohio Revised Code Section 742.35 provides each employer shall pay its annual policemen employers' and firefighter employers' contribution in four equal installments promptly as provided in section 742.33 and 742.34 of the Revised Code.

Ohio Revised Code Section 742.35 states in part "each employer shall pay its annual police officers' contribution and firefighter employers' contribution in four equal installments promptly as provided in sections 742.33 and 742.34 of the Revised Code. If an employer fails to make a payment on or before the date that is sixty days after the last day of the calendar quarter, a penalty determined under section 742.352 of the Revised Code shall be assessed against the employer. In addition, interest on past due accounts and penalties may be charged at a rate to be determined by the board from the date the installment is due to the date of payment".

The fiscal officer of the Village failed to properly contribute the employees and employer's share to the Ohio police and fire pension fund for three village police officers for the period June 28, 1995 through January 21, 1998 as prescribed above. The amounts owed by the Village for this period totaled \$13,808 for the employees share and \$26,925 for the employers share respectively.

In addition to the two amounts identified in the preceding paragraph, \$18,516 in penalties and interest was assessed to the Village as prescribed by Section 742.35 Revised Code.

The total owed Ohio police and fire pension fund by the Village for failure to comply with Ohio Revised Code Sections 742.31, 742.32, 742.33(A), and 742.35, was \$59,249.

**FINDING NUMBER 2001-004
(Continued)**

Since the Village had made erroneous contributions to Public Employees Retirement System for the three full-time police officers, the Village requested and received a refund from Public Employees Retirement System. In June of 2001 the Village received a total of \$13,251 for the employees share and in July 2001 the Village received a total of \$30,367 for the employer's share from Public Employees Retirement System. These refunds were used to off-set the \$59,249 the Village owed Ohio police and fire pension fund.

We recommend that the Village establish policies and procedures that would provide assurance that the Village's police officer's are enrolled and contribute to Ohio police and fire pension fund.

FINDING NUMBER 2001-005

The Village had entered into a Note Agreement in 1995 for the renovation of a water tower which required annual payments, including both principal and interest to be paid in December of each year through December 15, 2005. The Village also entered into a Note Agreement in 1997 for street improvements which required annual installments for principal and accrued interest to be due on the anniversary date of the note.

The Village failed to make the principal and interest payment for the 1995 Water Tower Renovation note which totaled \$7,437 and the 1997 Street Improvement Note which totaled \$29,000 during the fiscal year ending December 31, 2000. However, the Village did pay these two outstanding debts on January 18, 2001 as well as late fees of \$395 for the 1995 Water Tower Renovation Note and \$1450 in late fees for the Street Improvement Note.

We recommend the Village review all their existing Debt agreements to determine when payments are due. We then recommend a tickler file be established to be used as a reminder for the Village of the required dates for debt payments.

FINDING NUMBER 2001-006

Section 1 of Village Ordinance numbered 2836-00 states that effective July 1, 2000, the full amount of the statutorily required contributions to the Public Employees Retirement System of Ohio shall be withheld for the gross pay of each person within any of the classes established in Section 2 (employees of the Village who are or become contributing members of the Public Employees Retirement System), herein and shall be "picked up" by the Village of McDonald. This "pick up" by the Village is, and shall be designated as, public employee contributions and shall be in lieu of contributions to the Public Employees Retirement System by each person within any of the classes established in this Section.

Section 3 of Village Ordinance lists the method of payment of salary to employees who are participants in PERS is hereby modified as follows, in order to provide for a salary reduction pick up of employee contributions to PERS.

Internal Revenue Service makes it possible for an employer to pay (pick-up) employee contributions for members of PERS. The IRS has provided two methods of employer pick-up: the Fringe Benefit Method and the Salary Reduction Method. As described above the Village has chosen the Salary Reduction Method. Under the Salary Reduction Method there is no pay increase. The employer reduces an employees salary by 8.5 % and substitutes the reduced amount as an employee's gross pay for taxes purposes. The employer then forwards 8.5 % to PERS as the employee's contribution. In this case, the employee's salary is made up of two parts: a cash salary and an employer pick-up contribution. The retirement contribution is withheld based on the combined total of these two amounts (the original gross).

FINDING NUMBER 2001-006
(Continued)

While testing the Village's payroll and retirement contributions it was determined that the employees salary's were being properly reduced 8.5% as prescribed in the preceding paragraph. However the Village was only contributing 8.5% of the employees cash salary to PERS as the pick-up, which is contrary to the preceding paragraph which states the Village should be contributing 8.5% of both the cash salary and the employer pick-up contribution.

The Village has notified PERS of this error and is currently negotiating with PERS to correct this error.

We recommend the Village continue to negotiate with PERS to correct this error and to establish procedures to ensure compliance with these requirements in the future.

**VILLAGE OF MCDONALD
TRUMBULL COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2001 AND 2000**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
1999-31178-001	Lack of procedures to reasonably determine health insurance claims had been completed and accurately processed.	Yes	Finding no longer valid.



**Auditor of State
Betty Montgomery**

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800-282-0370

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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 10, 2004**