



Dave Yost • Auditor of State

VILLAGE OF MC DONALD
TRUMBULL COUNTY

TABLE OF CONTENTS

TITLE	PAGE
Independent Auditor's Report	1
Combined Statement of Receipts, Disbursements, and Changes in Fund Balances (Cash Basis) - All Governmental Fund Types - For the Year Ended December 31, 2012	3
Combined Statement of Receipts, Disbursements, and Changes in Fund Balances (Cash Basis) - All Proprietary and Fiduciary Fund Types - For the Year Ended December 31, 2012	4
Combined Statement of Receipts, Disbursements, and Changes in Fund Balances (Cash Basis) - All Governmental Fund Types - For the Year Ended December 31, 2011	5
Combined Statement of Receipts, Disbursements, and Changes in Fund Balances (Cash Basis) - All Proprietary and Fiduciary Fund Types - For the Year Ended December 31, 2011	6
Notes to the Financial Statements	7
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	15
Schedule of Findings.....	17
Schedule of Prior Audit Findings.....	21

This page intentionally left blank.



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

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

To Village Council:

Report on the Financial Statements

We have audited the accompanying financial statements and related notes of the Village of McDonald, Trumbull County, Ohio (the Village) as of and for the years ended December 31, 2012 and 2011.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

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

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

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Village of December 31, 2012 and 2011, or changes in financial position or cash flows thereof for the years then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined cash balances of the Village of McDonald, Trumbull County, Ohio (the Village) as of December 31, 2012 and 2011, and its combined cash receipts and disbursements for the years then ended in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit, described in Note 1.

Emphasis of Matter

As discussed in Note 1 to the financial statements, during 2011 the Village of McDonald adopted new accounting guidance in Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. We did not modify our opinion regarding this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 2, 2013, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Village's internal control over financial reporting and compliance.



Dave Yost
Auditor of State

Columbus, Ohio

December 2, 2013

**VILLAGE OF MCDONALD
TRUMBULL COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES (CASH BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Totals (Memorandum Only)</u>
Cash Receipts					
Property and Other Local Taxes	\$156,196				\$156,196
Intergovernmental	52,602	\$177,446		\$75,373	305,421
Charges for Services	24,544	54,073			78,617
Fines, Licenses and Permits	27,835	3,089			30,924
Earnings on Investments	9,695	642		4	10,341
Miscellaneous	47,191	200		2,411	49,802
<i>Total Cash Receipts</i>	<u>318,063</u>	<u>235,450</u>		<u>77,788</u>	<u>631,301</u>
Cash Disbursements					
Current:					
Security of Persons and Property	481,964	78,019			559,983
Public Health Services	5,000				5,000
Leisure Time Activities	21,200				21,200
Community Environment	6,750				6,750
Basic Utility Services	125,000				125,000
Transportation	2,000	236,947			238,947
General Government	422,712	1,505			424,217
Capital Outlay				209,676	209,676
<i>Total Cash Disbursements</i>	<u>1,064,626</u>	<u>316,471</u>		<u>209,676</u>	<u>1,590,773</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(746,563)</u>	<u>(81,021)</u>		<u>(131,888)</u>	<u>(959,472)</u>
Other Financing Receipts (Disbursements)					
Transfers In	725,000	120,000		200,000	1,045,000
<i>Total Other Financing Receipts (Disbursements)</i>	<u>725,000</u>	<u>120,000</u>		<u>200,000</u>	<u>1,045,000</u>
<i>Net Change in Fund Cash Balances</i>	(21,563)	38,979		68,112	85,528
<i>Fund Cash Balances, January 1</i>	<u>33,447</u>	<u>120,185</u>	<u>\$28,190</u>	<u>3,444</u>	<u>185,266</u>
Fund Cash Balances, December 31					
Restricted	0	108,112	0	0	108,112
Committed	0	51,052	0	0	51,052
Assigned	0	0	28,190	71,556	99,746
Unassigned (Deficit)	11,884	0	0	0	11,884
<i>Fund Cash Balances, December 31</i>	<u>\$11,884</u>	<u>\$159,164</u>	<u>\$28,190</u>	<u>\$71,556</u>	<u>\$270,794</u>

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

**VILLAGE OF MCDONALD
TRUMBULL COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES (CASH BASIS)
ALL PROPRIETARY AND FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Proprietary Fund Types		Fiduciary Fund Types	Totals
	Enterprise	Internal Service	Agency	(Memorandum Only)
Operating Cash Receipts				
Charges for Services	\$1,155,030	\$7,659		\$1,162,689
Property Taxes			\$8,712	8,712
Income Taxes			1,030,334	1,030,334
Municipal Income Tax	31,647		32,289	63,936
Earnings on Investments	6		3	9
Miscellaneous	152,058			152,058
<i>Total Operating Cash Receipts</i>	<u>1,338,741</u>	<u>7,659</u>	<u>1,071,338</u>	<u>2,417,738</u>
Operating Cash Disbursements				
Personal Services	278,259	48,681	56,495	383,435
Contractual Services	676,113			676,113
Supplies and Materials	62,865		32,536	95,401
<i>Total Operating Cash Disbursements</i>	<u>1,017,237</u>	<u>48,681</u>	<u>89,031</u>	<u>1,154,949</u>
<i>Operating Income (Loss)</i>	<u>321,504</u>	<u>(41,022)</u>	<u>982,307</u>	<u>1,262,789</u>
Non-Operating (Disbursements)				
Capital Outlay	(180,643)			(180,643)
Principal Retirement	(20,378)			(20,378)
<i>Total Non-Operating (Disbursements)</i>	<u>(201,021)</u>	<u>0</u>	<u>0</u>	<u>(201,021)</u>
<i>Income (Loss) before Capital Contributions, Special Item, Extraordinary Item, Transfers and Advances</i>	<u>120,483</u>	<u>(41,022)</u>	<u>982,307</u>	<u>1,061,768</u>
Transfers In	80,000	30,000	40,000	150,000
Transfers Out	(80,000)		(1,115,000)	(1,195,000)
<i>Net Change in Fund Cash Balances</i>	<u>120,483</u>	<u>(11,022)</u>	<u>(92,693)</u>	<u>16,768</u>
<i>Fund Cash Balances, January 1</i>	<u>713,962</u>	<u>26,160</u>	<u>877,793</u>	<u>1,617,915</u>
<i>Fund Cash Balances, December 31</i>	<u><u>\$834,445</u></u>	<u><u>\$15,138</u></u>	<u><u>\$785,100</u></u>	<u><u>\$1,634,683</u></u>

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

**VILLAGE OF MCDONALD
TRUMBULL COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES (CASH BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2011**

	General	Special Revenue	Debt Service	Capital Projects	Totals (Memorandum Only)
Cash Receipts					
Property and Other Local Taxes	\$159,468				\$159,468
Intergovernmental	121,901	\$192,049		\$35,302	349,252
Charges for Services	24,416	54,526			78,942
Fines, Licenses and Permits	28,142	5,146			33,288
Earnings on Investments	8,162	536			8,698
Miscellaneous	92,392	565			92,957
<i>Total Cash Receipts</i>	<u>434,481</u>	<u>252,822</u>		<u>35,302</u>	<u>722,605</u>
Cash Disbursements					
Current:					
Security of Persons and Property	413,170	86,515			499,685
Public Health Services	4,339				4,339
Leisure Time Activities	20,623				20,623
Community Environment	3,590				3,590
Basic Utility Services	143,425				143,425
Transportation	1,750	260,420			262,170
General Government	428,806				428,806
Capital Outlay				279,551	279,551
<i>Total Cash Disbursements</i>	<u>1,015,703</u>	<u>346,935</u>		<u>279,551</u>	<u>1,642,189</u>
<i>Receipts (Under) Disbursements</i>	<u>(581,222)</u>	<u>(94,113)</u>		<u>(244,249)</u>	<u>(919,584)</u>
Other Financing Receipts					
Transfers In	600,000	95,000		200,000	895,000
<i>Total Other Financing Receipts</i>	<u>600,000</u>	<u>95,000</u>		<u>200,000</u>	<u>895,000</u>
<i>Net Change in Fund Cash Balances</i>	18,778	887		(44,249)	(24,584)
<i>Fund Cash Balances, January 1</i>	<u>14,669</u>	<u>119,298</u>	<u>\$28,190</u>	<u>47,693</u>	<u>209,850</u>
Fund Cash Balances, December 31					
Restricted	0	79,764	0	0	79,764
Committed	0	41,048	0	0	41,048
Assigned	0	0	28,190	3,444	31,634
Unassigned (Deficit)	33,447	(627)	0	0	32,820
<i>Fund Cash Balances, December 31</i>	<u>\$33,447</u>	<u>\$120,185</u>	<u>\$28,190</u>	<u>\$3,444</u>	<u>\$185,266</u>

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

**VILLAGE OF MCDONALD
TRUMBULL COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES (CASH BASIS)
ALL PROPRIETARY AND FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2011**

	Proprietary Fund Types		Fiduciary Fund Types	Totals
	Enterprise	Internal Service	Agency	(Memorandum Only)
Operating Cash Receipts				
Charges for Services	\$1,131,078	\$8,325		\$1,139,403
Property Taxes			\$11,648	11,648
Income Taxes			993,070	993,070
Fines, Licenses, and Permits	22,333		39,214	61,547
Earnings on Investments	4		3	7
Miscellaneous	147,153			147,153
<i>Total Operating Cash Receipts</i>	<u>1,300,568</u>	<u>8,325</u>	<u>1,043,935</u>	<u>2,352,828</u>
Operating Cash Disbursements				
Personal Services	276,305	26,171	46,118	348,594
Contractual Services	703,628			703,628
Supplies and Materials	41,617		36,917	78,534
Other	15,513			15,513
<i>Total Operating Cash Disbursements</i>	<u>1,037,063</u>	<u>26,171</u>	<u>83,035</u>	<u>1,146,269</u>
<i>Operating Income (Loss)</i>	<u>263,505</u>	<u>(17,846)</u>	<u>960,900</u>	<u>1,206,559</u>
Non-Operating (Disbursements)				
Capital Outlay	(7,518)			(7,518)
Principal Retirement	(170,378)			(170,378)
Interest and Other Fiscal Charges	(12,151)			(12,151)
<i>Total Non-Operating (Disbursements)</i>	<u>(190,047)</u>	<u>0</u>	<u>0</u>	<u>(190,047)</u>
<i>Income (Loss) before Capital Contributions, Special Item, Extraordinary Item, Transfers and Advances</i>	<u>73,458</u>	<u>(17,846)</u>	<u>960,900</u>	<u>1,016,512</u>
Transfers In	30,000	30,000	30,000	90,000
Transfers Out	(30,000)		(955,000)	(985,000)
<i>Net Change in Fund Cash Balances</i>	<u>73,458</u>	<u>12,154</u>	<u>35,900</u>	<u>121,512</u>
<i>Fund Cash Balances, January 1</i>	<u>640,504</u>	<u>14,006</u>	<u>841,893</u>	<u>1,496,403</u>
<i>Fund Cash Balances, December 31</i>	<u>\$713,962</u>	<u>\$26,160</u>	<u>\$877,793</u>	<u>\$1,617,915</u>

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

**VILLAGE OF MC DONALD
TRUMBULL COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011**

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 directs the Village. The Village provides water and sewer utilities, park operations, and police services and fire service.

The Village's management believes these financial statements present all activities for which the Village is financially accountable.

B. Accounting Basis

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. The Village 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 include adequate disclosure of material matters, as the Auditor of State prescribes or permits.

C. Deposits and Investments

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

Money market mutual funds (including STAR Ohio) are recorded at share values the mutual funds report.

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 accounts for and reports all financial resources not accounted for and reported in another fund.

2. Special Revenue Funds

These funds account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The Village had the following significant Special Revenue Funds:

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

**VILLAGE OF MC DONALD
TRUMBULL COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(Continued)**

1. Summary of Significant Accounting Policies – (Continued)

3. Debt Service Funds

These funds account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

4. Capital Project Funds

These funds account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. The Village had the following significant capital project funds:

Capital Improvement Fund – This fund receives grant proceeds and tax revenues for capital improvements of the Village.

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 accounts for services provided by one department to other departments of the government unit. The Village had the following Internal Service Fund:

Self-funded Insurance Medical Fund – This fund receives insurance premium payments from other funds to pay medical claims of employees enrolled in the health insurance plan.

7. Fiduciary Funds

Fiduciary funds include private purpose trust funds and agency funds. Trust funds account for assets held under a trust agreement for individuals, private organizations, or other governments which are not available to support the Village's own programs.

Agency funds are purely custodial in nature and are used to hold resources for individuals, organizations or other governments. The Village disburses these funds as directed by the individual, organization or other government. The Village's agency funds account for Income Tax Collections, Police and Fire Pensions and the Mayor's Court.

VILLAGE OF MC DONALD
TRUMBULL COUNTY

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(Continued)

1. Summary of Significant Accounting Policies – (Continued)

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, and appropriations may not exceed estimated resources. The Village Council must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. 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 individual commitments are made. Encumbrances outstanding at year end are canceled, and reappropriated in the subsequent year.

A summary of 2012 and 2011 budgetary activity appears in Note 3.

F. Fund Balance

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

1. Nonspendable

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

2. Restricted

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

3. Committed

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

**VILLAGE OF MC DONALD
TRUMBULL COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(Continued)**

1. Summary of Significant Accounting Policies – (Continued)

4. Assigned

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

5. Unassigned

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

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

G. Property, Plant, and Equipment

The Village records disbursements for acquisitions of property, plant, and equipment when paid. The accompanying financial statements do not report these items as assets.

H. Accumulated Leave

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. The financial statements do not include a liability for unpaid leave.

2. Equity in Pooled Deposits and Investments

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

	2012	2011
Demand deposits	\$113,441	\$108,302
Money Market	1,009,528	919,326
Total deposits	1,122,969	1,027,628
STAR Ohio	18,505	18,491
Huntington Investment	764,003	757,062
Total investments	782,508	775,553
Total deposits and investments	\$1,905,477	\$1,803,181

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

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

**VILLAGE OF MC DONALD
TRUMBULL COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(Continued)**

3. Budgetary Activity

Budgetary activity for the years ending December 31, 2012 and 2011 follows:

2012 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$1,126,775	\$1,043,063	(\$83,712)
Special Revenue	500,556	365,381	(135,175)
Debt Service	28,190	0	(28,190)
Capital Projects	449,446	267,857	(181,589)
Enterprise	2,086,961	1,418,741	(668,220)
Internal Service	76,159	37,659	(38,500)
Fiduciary	1,954,497	1,111,338	(843,159)
Total	\$6,222,584	\$4,244,039	(\$1,978,545)

2012 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$1,077,955	\$1,064,626	\$13,329
Special Revenue	348,010	316,471	31,539
Debt Service	0	0	0
Capital Projects	343,500	209,676	133,824
Enterprise	1,392,428	1,298,258	94,170
Internal Service	50,900	48,681	2,219
Fiduciary	1,218,500	1,204,031	14,469
Total	\$4,431,293	\$4,141,743	\$289,550

2011 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$1,265,805	\$1,034,481	(\$231,324)
Special Revenue	507,922	347,822	(160,100)
Debt Service	28,190	0	(28,190)
Capital Projects	347,435	235,302	(112,133)
Enterprise	1,987,607	1,330,568	(657,039)
Internal Service	60,769	38,325	(22,444)
Fiduciary	1,869,470	1,073,935	(795,535)
Total	\$6,067,198	\$4,060,433	(\$2,006,765)

**VILLAGE OF MC DONALD
TRUMBULL COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(Continued)**

3. Budgetary Activity – (Continued)

2011 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$1,035,931	\$1,015,703	\$20,228
Special Revenue	378,510	346,935	31,575
Debt Service	0	0	0
Capital Projects	250,500	279,551	(29,051)
Enterprise	1,396,428	1,257,110	139,318
Internal Service	30,900	26,171	4,729
Fiduciary	1,157,800	1,038,035	119,765
Total	\$4,250,069	\$3,963,505	\$286,564

Contrary to Ohio law, budgetary expenditures exceeded appropriation authority in the Capital Improvement fund by \$29,051 for the year ended December 31, 2011. Also contrary to Ohio law, the Village did not certify the availability of funds prior to incurring obligations or commitments.

4. Property Tax

Real property taxes become a lien on January 1 preceding the October 1 date for which the Council adopted 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 financial statements include homestead and rollback amounts the State pays as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to pay semiannually, the first half is due December 31. The second half payment is due the following June 20.

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 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, 2012 was as follows:

	Principal	Interest Rate
OPWC Loans	\$45,163	0%
Total	\$45,163	

**VILLAGE OF MC DONALD
TRUMBULL COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(Continued)**

6. Debt

The Ohio Public Works Commission (OPWC) Loans related to the sewer plant expansion project and the Waste Water Treatment Plant – Catch Basin. The OPWC has approved up to \$707,586 in interest free loans to the Village for these projects. These loans will be repaid in semi-annual installments over 20 years. Water and sewer user fees collateralize the loan.

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

Year ending December 31:	<u>OPWC Loans</u>
2013	\$5,379
2014	5,379
2015	5,379
2016	5,379
2017	5,379
2018-2022	<u>18,268</u>
Total	<u><u>\$45,163</u></u>

7. Retirement Systems

The Village's full-time Police Officers belong to the Police and Fire Pension Fund (OP&F). Other employees belong to the Ohio Public Employees Retirement System (OPERS). OP&F and OPERS are cost-sharing, multiple-employer plans. The Ohio Revised Code prescribes these plans' benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2012 and 2011, OP&F participants contributed 10% of their wages. For 2012 and 2011, the Village contributed to OP&F an amount equal to 19.5% of full-time police members' wages. For 2012 and 2011, OPERS members contributed 10%, of their gross salaries and the Village contributed an amount equaling 14% of participants' gross salaries. The Village has paid all contributions required through December 31, 2012.

8. Risk Management

Commercial Insurance

The Village has obtained commercial insurance for the following risks:

- Comprehensive property and general liability;
- Vehicles; and
- Errors and omissions.

9. Fund Balance Adjustment

During 2012, the Village's fund balances were not properly reconciled to their bank balances. As a result, the Village's General Fund balance had to be reduced by \$9,164 in order for the Village's financial statements to agree to their bank balances. The Village's financial statements have been adjusted accordingly.

This page intentionally left blank.



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S 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 Village Council:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of Village of McDonald, Trumbull County, (the Village) as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements, and have issued our report thereon dated December 2, 2013, wherein we noted the Village followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code 117-2-03(D) permits. In addition, we noted the Village implemented Governmental Accounting Standards Board Statement No. 54.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Village's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the Village's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Government's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings that we consider significant deficiencies in internal control. We consider findings 2012-002 and 2012-004 to be significant deficiencies.

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, opining 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 2012-001 through 2012-003.

Entity's Response to Findings

The Village's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the Village's responses and, accordingly, we express no opinion on them.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Village's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Village's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Dave Yost
Auditor of State

Columbus, Ohio

December 2, 2013

**VILLAGE OF MCDONALD
TRUMBULL COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2012 And 2011**

1. Improper Investments

<i>Finding Number</i>	2012-001
-----------------------	----------

NONCOMPLIANCE

Ohio Revised Code Section 135.14 (B)(3) provides that no investment shall be made pursuant to division (B)(7) of this section unless the treasurer or governing board has completed additional training for making the investments authorized by division (B)(7) of this section. The type and amount of additional training shall be approved by the auditor of state and may be conducted by or provided under the supervision of the auditor of state.

Ohio Revised Code Section 135.14(O)(1), provides that investments or deposits under ORC §135.14 cannot be made unless a written investment policy approved by the treasurer or governing board is on file with the Auditor of State, with the following two exceptions:

1. Per Ohio Revised Code §135.14(O)(2), If a written investment policy is not filed with the Auditor of State, the treasurer or governing board can invest only in interim deposits, STAR Ohio, or no-load money market mutual funds.
2. Per Ohio Revised Code §135.14(O)(3), A subdivision with an average annual investment portfolio of \$100,000 or less need not file an investment policy, provided that the treasurer or governing board certifies to the Auditor of State that the treasurer or governing board will comply and is in compliance with the provisions of §135.01 to §135.21.

Ohio Revised Code Section 135.35(O)(1) provides that a written investment policy shall require that all entities conducting investment business with the investing authority shall sign the investment policy of the investment authority. All brokers, dealers, and financial institutions initiating transactions with the investment authority by giving advice or making investment recommendations shall sign the investment authority's investment policy thereby acknowledging their agreement to abide by the policy's contents. All brokers, dealers, and financial institutions executing transactions initiated by the investment authority, having read the policy's content, shall sign the investment policy thereby acknowledging their comprehension and receipt. A copy shall be maintained on file with the Auditor of State.

Auditor of State Bulletin 1996-17 provides that a subdivision should maintain a copy of the filed policy and that copy must be signed by the parties described above.

The Village does not have a written investment policy in place, but invested \$802,087 in government securities during 2011-2012, which is not one of the allowable investments listed under ORC §135.14. In addition, the Treasurer of the Village did not attend the annual required Treasurer of State Investment training for either year under audit.

We recommend that the Village initiate a written investment policy and that they file this with all of the parties enumerated above and request a signed acknowledgment to verify their comprehension and receipt. We also recommend the Treasurer either limit investments to those allowable under Ohio Revised Code Section 135.14 or attend the required annual training to expand the investments of the Village.

Official's Response: We will be instituting an investment policy for 2014 and it will be forwarded to the auditor of state along with a copy of CPIM training certificate.

2. Failure to Perform Duties- Treasurer

<i>Finding Number</i>	2012-002
-----------------------	----------

NONCOMPLIANCE AND SIGNIFICANT DEFICIENCY

Ohio Revised Code Section 733.43 provides that the Treasurer must keep an accurate account of:

(A) All money 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.

Ohio Revised Code § 733.43 also provides that 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 books must provide separate accounts for each fund and appropriation. The Treasurer and Clerk should maintain the same accounts, since they must be reconciled. Ohio Revised Code §733.45 provides that the Treasurer shall settle and account with the Village Council, quarterly, and at any other time which the Village Council directs by resolution or ordinance. At the first January meeting of Village Council each year, the treasurer shall report on the Village financial condition, including amount of receipts, disbursements and accounts. The balance of each fund shall be reported. The Treasurer shall also keep a treasury of investment account documenting the investment of treasury fund.

The Treasurer submitted no financial reports to Council for their review during the audit period. He gave oral presentations at council meetings; however, he did not present annual written financial reports to Council detailing the financial condition of the Village. In addition, the Treasurer did not reconcile his books with the Village Clerk during the audit period, which caused the Village to be unbalanced at the end of December 31, 2012 by \$9,164. As a result, the Village's general fund was decreased by \$9,164 to make the Village's fund balances equal their bank balances. This adjustment has been posted to the Village's accounting system and is reflected in the financial statements.

We recommend that the Treasurer submit annual written reports to council detailing the financial condition of the Village, additionally we recommend that the Treasurer prepare and present monthly bank reconciliations to council for their review and approval.

Official's Response: Subsequent to fiscal year 2012, the Village has identified \$5,557 of misposted transactions related to the \$9,164 unreconciled balance.

3. Expenditures Exceeded Appropriations

<i>Finding Number</i>	2012-003
-----------------------	----------

NONCOMPLIANCE

Ohio Revised Code 5705.41B states that, no subdivision or taxing unit is to expend money unless it has been appropriated.

For 2011, expenditures in the capital projects fund exceeded appropriations by \$29,051.

The Fiscal Officer should monitor expenditures more closely to ensure that they never exceed appropriations. If the Fiscal Officer foresees a problem, he should amend the appropriations, obtain Council approval, and certify them with the County Auditor to avoid expenditures exceeding appropriations.

Official's Response: Village will budget for on-behalf grants in the future, which was the cause of the violation.

4. Missposting of Receipts

<i>Finding Number</i>	2012-004
-----------------------	----------

SIGNIFICANT DEFICIENCY

All receipts should be properly classified as to the type of revenue and in the proper fund which usually determines the source and purpose of the revenue; such as, monies from the State or Federal governments, and interest earned.

The Village posted various receipts to the incorrect line items. For 2011, intergovernmental revenues were misposted to taxes in the amount of \$28,641 and miscellaneous revenue in the amount of \$20,450. For 2012, intergovernmental revenues were misposted to taxes in the amount of \$27,937 and miscellaneous revenues in the amount of \$65,442. On behalf receipts from the Ohio Public Works Commission in the amount of \$35,302 were not posted to the accounting system in their entirety for fiscal year 2011. These adjustments have been made to the Village's financial statements and accounting system if applicable.

We recommend that the Fiscal Officer review all receipts for the purpose and source of the receipt in order to properly classify the revenue received by the Village. When uncertainty occurs the Fiscal Officer should consult either the Accounting System chart of accounts for proper classification and descriptions of the receipt types or refer to the Village accounting manual.

Official's Response: Village will post receipts accordingly.

This page intentionally left blank.

**VILLAGE OF MCDONALD
TRUMBULL COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2012 AND 2011**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2010-01	Ohio Revised Code 5705.41D – certifying of available funds	No	Re-issued as a Management Letter comment
2010-02	Failure of Treasurer to perform duties	No	Re-issued as Finding 2012-002
2010-03	Failure of Fire Chief to perform duties	Yes	

This page intentionally left blank.



Dave Yost • Auditor of State

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
JANUARY 14, 2014**