Mary Taylor, CPA
Auditor of State

McDonald Local School District
Trumbull County, Ohio

Financial Forecast
For the Fiscal Year Ending June 30, 2011

Local Government Services Section

McDonald Local School District
Trumbull County

Table of Contents

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Financial Planning and Supervision Commission
Ohio Department of Education
25 South Front Street
Columbus, Ohio 43215

and

Board of Education
McDonald Local School District
600 Iowa Avenue
McDonald, Ohio 44437-1677

CERTIFICATION

Certification is hereby made that, based upon the requirement set forth in Section 3316.08, Revised Code, the Local Government Services Section of the Auditor of State's Office has examined the financial forecast of the general fund of the McDonald Local School District, Trumbull County, Ohio, and issued a report dated September 20, 2010. The forecast is based on the assumption that the School District will continue to operate its instructional program in accordance with its adopted school calendar and pay all obligations. Additional significant assumptions are set forth in the forecast. Some assumptions inevitably will not materialize, and unanticipated events and circumstances may occur; therefore, the actual results of operations during the forecast period will vary from the forecast, and the variations may be material.

The forecast reflects an operating excess or surplus for the fiscal year ending June 30, 2011 of $217,000.

The forecasted revenues include all property taxes scheduled for settlement during the forecast period. The forecast excludes the receipt of any advances against fiscal year 2011 scheduled property tax settlements. The potential advances have been excluded due to the School District's inability to appropriate this revenue until received and the uncertainty of the timing of any advances. Currently, it is the Board's intent not to appropriate any such advances for fiscal year 2011.

MARY TAYLOR, CPA
Auditor of State

Unice S. Smith

Unice S. Smith
Chief of Local Government Services

November 18, 2010

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Mary Taylor, CPA
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Board of Education
McDonald Local School District
600 Iowa Avenue
McDonald, Ohio 44437-1677

Independent Accountant's Report

We have examined the accompanying forecasted statement of revenues, expenditures and changes in fund balance of the general fund of the McDonald Local School District for the fiscal year ending June 30, 2011. The McDonald Local School District's management is responsible for the forecast. Our responsibility is to express an opinion on the forecast based on our examination.

Our examination was conducted in accordance with the attestation standards established by the American Institute of Certified Public Accountants, and accordingly, included such procedures as we considered necessary to evaluate both the assumptions used by management and the preparation and presentation of the forecast. We believe that our examination provides a reasonable basis for our opinion.

In our opinion, the accompanying forecast is presented in conformity with guidelines for presentation of a forecast established by the American Institute of Certified Public Accountants, and the underlying assumptions provide a reasonable basis for the Board's forecast. However, there will usually be differences between the forecasted and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

The accompanying statement of revenues, expenditures and changes in fund balance of the general fund of McDonald Local School District for the fiscal years ended June 30, 2008, 2009 and 2010 were compiled by us in accordance with the Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. A compilation is limited to presenting in the form of financial statements information that is the representation of management. We have not audited or reviewed this financial information, and, accordingly, do not express an opinion or any other form of assurance on them. Management has elected to omit substantially all of the disclosures associated with the historical financial statements; these disclosures might influence a user's conclusions regarding the School District's results of operations. Accordingly, these financial statements are not designed for those who are not informed about such matters.

MARY TAYLOR, CPA
Auditor of State

September 20, 2010

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McDonald Local School District

Trumbull County
Statement of Revenues, Expenditures and Changes in Fund Balance
For the Fiscal Years Ended June 30, 2008 through 2010 Actual;
For the Fiscal Year Ending June 30, 2011 Forecasted
General Fund

	Fiscal Year 2008 Actual	Fiscal Year 2009 Actual	Fiscal Year 2010 Actual	Fiscal Year 2011 Forecasted
Revenues				
General Property Taxes	$1,158,000	$1,214,000	$1,207,000	$1,377,000
Tangible Personal Property Taxes	112,000	48,000	7,000	4,000
Unrestricted Grants-in-Aid	3,764,000	3,733,000	3,392,000	3,424,000
Restricted Grants-in-Aid	33,000	32,000	27,000	27,000
Restricted Federal Grants-in-Aid - SFSF and Ed Jobs	0	0	236,000	509,000
Property Tax Allocation	236,000	288,000	344,000	364,000
All Other Revenues	965,000	981,000	1,063,000	1,026,000
Total Revenues	6,268,000	6,296,000	6,276,000	6,731,000
Other Financing Sources				
Proceeds from Sale of Notes	800,000	160,000	600,000	0
Solvency Assistance Advance	0	0	2,001,000	0
Advances-In	0	0	0	55,000
Total Other Financing Sources	800,000	160,000	2,601,000	55,000
Total Revenues and Other Financing Sources	7,068,000	6,456,000	8,877,000	6,786,000
Expenditures				
Personal Services	4,012,000	4,222,000	4,144,000	3,331,000
Employees' Retirement/Insurance Benefits	1,603,000	1,290,000	1,671,000	1,292,000
Purchased Services	917,000	752,000	692,000	828,000
Supplies and Materials	296,000	250,000	204,000	195,000
Capital Outlay	18,000	7,000	1,000	5,000
Debt Service:				
Principal-Notes	250,000	200,000	1,450,000	0
Principal-Solvency Assistance Advance	0	0	0	1,001,000
Interest	9,000	7,000	45,000	0
Other Objects	63,000	67,000	110,000	77,000
Total Expenditures	7,168,000	6,795,000	8,317,000	6,729,000
Other Financing Uses				
Advances Out	0	0	55,000	50,000
Total Expenditures and Other Financing Uses	7,168,000	6,795,000	8,372,000	6,779,000
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(100,000)	(339,000)	505,000	7,000
Cash Balance (Deficit) July 1	169,000	69,000	(270,000)	235,000
Cash Balance (Deficit) June 30	69,000	(270,000)	235,000	242,000
Encumbrances and Reserves:				
Actual/Estimated Encumbrances June 30	9,000	117,000	63,000	25,000
Reserves for:				
Bus Purchase	1,000	4,000	4,000	0
Total Encumbrances and Reserves of Fund Balance	10,000	121,000	67,000	25,000
Unencumbered/Unreserved Fund Balance (Deficit) June 30	$59,000	($391,000)	$168,000	$217,000

See accompanying summary of significant forecast assumptions and accounting policies
See independent accountant's report

Note 1 – The School District

The McDonald Local School District (School District) is located in Trumbull County and encompasses all of the Village of McDonald and portions of surrounding townships. The School District is organized under Article VI, Sections 2 and 3, of the Constitution of the State of Ohio. The legislative power of the School District is vested in the Board of Education, consisting of five members elected at large for staggered four year terms. The School District currently operates two instructional buildings. The School District is staffed by 11 classified and 51 certificated personnel to provide services to approximately 920 students and other community members.

Note 2 - Nature of the Forecast

This financial forecast presents, to the best of the McDonald Local School District Board of Education's knowledge and belief, the expected revenues, expenditures and operating balance of the general fund. Accordingly, the forecast reflects the Board of Education's judgment of the expected conditions and its expected course of action as of September 20, 2010, the date of this forecast. The assumptions disclosed herein are those that management believes are significant to the forecast. Differences between the forecasted and actual results will usually arise because events and circumstances frequently do not occur as expected, and those differences may be material.

Note 3 – Nature of the Presentation

The forecast presents the revenues, expenditures, and changes in fund balance of the general fund. Under State law, certain general fund resources received from the State must be spent on specific programs. These resources and the related expenditures have been segregated in the accounting records of the School District to demonstrate compliance. State laws also require general fund resources pledged for the repayment of debt to be recorded directly in the debt service fund. For presentation in the forecast, the poverty based assistance, fiscal stabilization and education jobs funds and general fund supported debt are included in the general fund.

Note 4 - Summary of Significant Accounting Policies

Basis of Accounting

This financial forecast has been prepared on a basis of cash receipts, disbursements, and encumbrances, which is consistent with the required budget (non-GAAP) basis of accounting used to prepare the historical financial statements. Under this basis of accounting, certain revenue and related assets are recognized when received rather than when earned and certain expenditures are recognized when paid rather than when the obligation is incurred. However, by virtue of Ohio law, the School District is required to maintain the encumbrance method of accounting. This method requires purchase orders, contracts, and other commitments for the expenditure of monies to be recorded as the equivalent of an expenditure in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance.

Fund Accounting

The School District maintains its accounting in accordance with the principles of "fund" accounting. Fund accounting is a concept developed to meet the needs of governmental entities in which legal or other restraints require the segregation of specific receipts and disbursements. The transactions of each fund are reflected in a self-balancing group of accounts, an accounting entity which stands separate from the activities reported in other funds. The restrictions associated with each class of funds are as follows:

Governmental Funds

General Fund - The general fund is the operating fund of the School District and is used to account for all financial resources except those required to be accounted for in another fund. The general fund balance is available to the School District for any purpose provided it is disbursed or transferred in accordance with Ohio law.

Special Revenue Funds - Special revenue funds account for the proceeds of specific revenue sources (other than for major capital projects) that are legally restricted to disbursements for specified purposes.

Debt Service Fund - Debt service funds account for the accumulation of resources for, and the payment of, general long-term and short-term debt principal and interest.

Capital Projects Funds - Capital projects funds account for financial resources used for the acquisition or construction of major capital facilities (other that those financed by proprietary funds).

Permanent Funds - Permanent funds account for financial resources that are legally restricted to the extent that only earnings, and not principal, may be used for the benefit of the School District or its students.

Proprietary Funds

Enterprise Funds - Enterprise funds account for any activity for which a fee is charged to external users for goods or services.

Internal Service Funds – Internal Service funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the School District, or to other governments on a cost-reimbursement basis.

Fiduciary Funds

Fiduciary funds account for assets held by the School District in a trustee capacity or as an agent for individuals, private organizations or other government units. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds and agency funds.

Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated.

Budget – A budget of estimated cash receipts and disbursements is submitted to the Trumbull County Auditor, as secretary of the county budget commission, by January 20 of each year, for the succeeding fiscal year.

Estimated Resources - The county budget commission certifies its actions to the School District by March 1. As part of this certification, the School District receives the official certificate of estimated resources which states the projected receipts of each fund. On or about July 1, this certificate is amended to include any unencumbered balances from the preceding year. Prior to June 30, the School District must revise its budget so that total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation measure.

Appropriations - A temporary appropriation measure to control cash disbursements may be passed on or about July 1 of each year. The temporary appropriation measure remains in place until the annual appropriation measure is adopted for the entire year. The appropriation measure may be amended or supplemented during the year as new information becomes available.

Encumbrances - The School District uses the encumbrance method of accounting. Under this system, purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve a portion of the applicable appropriation.

Note 5 - General Operating Assumptions

The McDonald Local School District will continue to operate its instructional program in accordance with its adopted school calendar and pay all obligations. The forecast contains those expenditures the Board of Education has determined to be necessary to provide for an adequate educational program.

Note 6 - Significant Assumptions for Revenues and Other Financing Sources

General and Tangible Personal Property Taxes

Property taxes are applied to real property, public utility real and personal property and manufactured homes which are located within the School District. Tangible personal property used in businesses was taxed in calendar years prior to 2011. Property taxes are collected for, and distributed to, the School District by the county auditor and treasurer. Settlement dates, on which collections are distributed to the School District, are established by State statute. The School District may request advances from the Trumbull County Auditor as the taxes are collected. When final settlements are made, any amounts remaining to be distributed to the School District are paid. Deductions for auditor and treasurer fees, advertising delinquent taxes, election expenses, and other fees are made at these settlement times. The amounts shown in the revenue section of the forecast represent gross property tax revenue.

Property taxes are levied and assessed on a calendar year basis while the School District’s fiscal year runs from July through June. Property tax revenue received during calendar year 2010 (the collection year) for real and public utility property taxes represents collections of 2009 taxes (the tax year). Property tax payments received during calendar year 2010 for tangible personal property (other than public utility property) are for calendar year 2010 taxes. First half calendar year tax collections are received by the School District in the second half of the fiscal year. Second half calendar year tax distributions occur in the first half of the following fiscal year.

State law allows for certain reductions in the form of rollbacks and homestead exemptions for real estate taxes. The State reimburses the School District for all revenues lost due to these exemptions. The amount of the reimbursement is presented in the account “Property Tax Allocation”.

Prior to fiscal year end, a school district may request an advance of real property tax collections that ordinarily would be settled in August and used to finance the upcoming fiscal year. The forecast excludes the receipt of any advances against fiscal year 2012 scheduled property tax settlements. The potential advances have been excluded due to the School District’s inability to appropriate this revenue until received and the uncertainty of the timing of any advances. Currently, it is the Board’s intent not to appropriate any such advances for fiscal year 2011.

The property tax revenues for the general fund are generated from several levies. The levies being collected for the general fund, the year approved, first and last year of collection, and the full tax rate are as follows:

Tax Levies	Year Approved/ Renewed	First Calendar Year of Collection	Last Calendar Year of Collection	Full Tax Rate (Per $1,000 of Assessed Valuation)
Inside Ten Mill Limitation (Unvoted)	n/a	n/a	n/a	$5.10
Continuing Operating	1976	n/a	n/a	30.80
Continuing Operating	1980	n/a	n/a	6.00
Emergency ($200,147)	2007	2008	2012	3.90
Emergency ($260,000)	2009	2010	2014	4.90
Total Tax Rate				$50.70

The School District also has a levy for permanent improvements of $2.00 per $1,000 of assessed valuation, a bond levy of $3.25 per $1,000 of assessed valuation and a levy for classroom facilities maintenance of $.50 per $1,000 of assessed valuation. The School District’s total tax rate is $56.45 per $1,000 of assessed valuation.

Ohio law provides for a reduction in the rates of voted levies to offset increased values resulting from a reappraisal of real property. Reduction factors are applied to voted levies so that each levy yields the same amount of real property tax revenues on carryover property as in the prior year. Reduction factors are also adjusted to generate the same amount of property tax revenue on carryover property when there is a decline in the assessed valuation of property. For all voted levies, except emergency and debt levies, increases in revenues are restricted to amounts generated from new construction. Emergency and debt levies are intended to generate a set revenue amount annually. The revenue generated by emergency and debt levies is not affected by changes in real property valuation. The reduction factors are computed annually and applied separately for residential/agricultural real property and commercial/industrial real property. Reduction factors are not applied to inside millage (an unvoted levy) nor to tangible personal or public utility personal property levy rates. State law also prohibits the reduction factors from reducing the effective millage of the sum of the general fund current operating levies (excluding emergency levies) plus inside millage used for operating purposes below 20 mills. For the general fund, the effective residential and agricultural real property tax rate is at $28.83 per $1,000 of assessed valuation for collection year 2010, and the effective commercial and industrial real property tax rate is $46.68 per $1,000 of assessed valuation for collection year 2010.

Public utility real and personal property taxes are collected and settled by the county with real estate taxes and are recorded as general property taxes. Beginning in 2001, the Ohio General Assembly reduced the assessment rate for certain tangible personal property of electric and gas utilities from 88 percent to 25 percent. Starting in tax year 2005, the assessment rate for personal property owned by telephone utilities prior to 1995 was being phased down from 88 percent to 25 percent (in tax year 2007) over a three-year period. Beginning in 2007, House Bill 66 switched telephone companies from being public utilities to general business taxpayers and began a four year phase out of the tangible personal property tax on local and inter-exchange telephone companies. No tangible personal property taxes will be levied or collected after calendar year 2010 on local and inter-exchange telephone companies. The State of Ohio reimburses the School District for the loss of tangible personal property taxes as a result of these changes within certain limitations (see Property Tax Allocation Revenue below).

General Property Tax - General property tax revenue includes real estate taxes, public utility property taxes and manufactured home taxes. The amount shown in the revenue section of the forecast represents gross property tax revenue and is based upon information provided by the Trumbull County Auditor. The School District anticipates an increase of $170,000 from the prior fiscal year due to the School District receiving a full year of collections of the $260,000 emergency levy passed in November 2009.

Tangible Personal Property Tax – Tangible personal property tax was levied on machinery and equipment, furniture and fixtures, and inventory of businesses. Effective for tax years 2005 and 2006, the assessment rate on personal property began a phase out of the tax. No tangible personal property taxes were levied or collected after calendar year 2009 from general business taxpayers and no tangible personal property tax on telephone property will be collected after calendar year 2010. The School District, based on the last year of collections before the phase out period, lost approximately $163,000, annually. The State of Ohio reimbursed the School District for the loss of tangible personal property taxes as a result of the changes in House Bill 66 within certain limitations (see Property Tax Allocation below). The decrease in revenue for the forecast period compared to the prior fiscal year is due to the phase out of tangible personal property taxes.

Unrestricted Grants-in-Aid

Prior to fiscal year 2010, the State's foundation program was established by Chapter 3317 of the Ohio Revised Code and included formula aid and various categorical aid programs such as special and gifted education, career and technical education and transportation. Other programs such as parity aid, excess cost supplement and transitional aid guarantee were provided to address certain policy issues or correct flaws in formula aid were also included in this revenue. The semi-annual payments were calculated by the State Department of Education, Division of School Finance, on the basis of pupil enrollment (ADM), times a per pupil foundation level, less the equivalent of 23 mills multiplied by the school district's taxable property valuation. The per pupil foundation level was set by State Legislature. Beginning in fiscal year 2008, the per pupil amount was increased by four base supplements called "building blocks." The building blocks were funding for intervention, professional development, data based decision making, and professional development for data based decision making.

The per pupil amount for fiscal years 2008 and 2009 are as follows:

Fiscal Year	Per Pupil Foundation Level	Building Blocks	Total
2008	$5,565	$49	$5,614
2009	5,732	51	5,783

Beginning in fiscal year 2010, the State General Assembly adopted a new funding method called the Ohio Evidence-Based Model (OEBM). The Ohio Evidence-based Model was established in Chapter 3306 of the Ohio Revised Code and links educational research on academic achievement and successful outcomes with funding components to achieve results. It incorporates real financial data and socioeconomic factors to fund resources and implement proven school programs according to the student need to achieve educational adequacy. The adequacy amount is the sum of service support components for instruction, administrative, operations and maintenance, gifted and enrichment, professional development and an instructional materials factor. These factors are multiplied against the Ohio education challenge factor (a district's wealth factor) and the State-wide base salary for given positions and the number of positions funded. Other factors included in the calculation are student/teacher ratios, organizational units, and average daily membership (ADM). The adequacy amount is offset by the school district share of the adequacy amount (the charge off amount), which is equal to 22 mills for fiscal years 2010 and 2011.

The State Department of Education, Division of School Finance calculates the annual funding, including the adequacy amount, and distributes a prorated share bi-monthly to the School District. In transitioning to the Ohio Evidence-Based Model, the gifted, enrichment, technology service support components and the charge off amount are phased in over a five year period. In addition, school districts are guaranteed 99 percent of prior year's State Foundation aid in fiscal year 2010 and 98 percent of in fiscal year 2011. For fiscal year 2011, the McDonald Local School District estimates $3,424,000 in adequacy funding. The $32,000 increase is due to an increase in ADM of 22 kids.

In fiscal years 2010 and 2011, approximately six percent and nine percent, respectively, of the adequacy funding is provided from a State Fiscal Stabilization grant received by the State of Ohio under the American Recovery and Reinvestment Act (see Restricted Federal Grants-in-Aid).

Restricted Grants-in-Aid

Restricted grants-in-aid consist of career tech monies and half-mill equalization payments. For fiscal year 2011, the School District anticipates $1,000 in career tech monies and $26,000 in half-mill equalization payments. School Districts that have participated in the Ohio School Facilities Commission's building projects receive the half-mill equalization payments to provide for maintenance of the facilities constructed through the program.

Restricted Federal Grants-in-Aid

Restricted Federal grants-in-aid consist of State Fiscal Stabilization Funds and the Education Jobs grant monies. In 2010, Ohio was allocated $845 million from the American Recovery and Reinvestment Act in State Fiscal Stabilization Funds (SFSF) to help stabilize state and local budgets in order to minimize and avoid reductions in education and other essential services. SFSF for primary and secondary education is distributed to school districts as part of the foundation settlement payments twice a month. The

McDonald Local School District, based on estimates provided by the Department of Education, anticipates $258,000 for fiscal year 2011. These funds have limited restrictions on their use. The School District has chosen to use these funds for payment of utilities.

In 2010, Congress passed and the President has signed legislation that provides $10 billion in resources to assist local school districts in saving or creating education jobs during fiscal years 2011 and 2012. The Education Jobs grant may be used only for compensation and benefits and other expenses, such as support services, necessary to retain existing employees, to recall or rehire former employees, and to hire new employees, in order to provide early childhood, elementary, or secondary educational and related services. The McDonald Local School District, based on estimates provided by the Department of Education, anticipates $251,000 for fiscal year 2011. These funds have limited restrictions on their use. The School District has chosen to use these funds in fiscal year 2011 for salaries and benefits for the fifth and sixth grade teachers.

<u>Property Tax Allocation</u>

State law grants tax relief in the form of a ten percent reduction in real property tax bills. In addition, a two and one-half percent rollback is granted on residential property taxes. Tax relief is also granted to qualified elderly and disabled homeowners based on their income. Beginning in tax collection year 2008, the State expanded the homestead exemption to allow eligible homeowners to shield the first $25,000 in market value from taxation. This expanded exemption will increase State allocation revenue and decrease property tax revenues by an equal amount. The State reimburses the School District for the loss of real property taxes as a result of the rollback and homestead tax relief programs.

The State exempted the first $10,000 in general business personal property from taxation and reimburse the School District for the lost revenue. Beginning with tax year 2004, the State began phasing out the reimbursement by 10 percent each year. Under HB 66, the phase-out period was accelerated. The last reimbursement for this exemption was in October 2008.

In fiscal year 2006, the State began reimbursing the School District for lost revenue due to the phase out of tangible personal property tax. In the first five years, the School District will be fully reimbursed relative to prior law for revenue lost due to the taxable value of reductions through 2013. Beginning in fiscal year 2013, the reimbursements are gradually phased out. The reimbursement will be for the difference between the assessed values under prior law and the assessed values under House Bill 66. This means the School District is only reimbursed for the difference between the amounts that would have been received under the prior law and the amounts actually received as the phase-outs in House Bill 66 are implemented. For fiscal year 2011, the School District anticipates receiving $113,000 of reimbursement for the tangible personal property tax phase out.

Property tax allocation revenues consist of the following:

Revenue Sources	Actual Fiscal Year 2008	Actual Fiscal Year 2009	Actual Fiscal Year 2010	Forecasted Fiscal Year 2011	Variance
Homestead and Rollback	$187,000	$212,000	$231,000	$251,000	$20,000
Tangible Personal Property Exemption	3,000	1,000	0	0	0
Tangible Personal Property Loss Reimbursement	46,000	75,000	113,000	113,000	0
Totals	$236,000	$288,000	$344,000	$364,000	$20,000

<u>All Other Revenues</u>

All other revenues include open enrollment, interest on investments, student class fees, and other revenue.

Open enrollment tuition revenue is expected to decrease from the prior fiscal year due to a decrease in the number of students from other school districts attending the School District.

Interest is based on historical investment practices and anticipated rates and cash balances during the forecast period. The School District pools cash from all funds for investment purposes. Investments are restricted by provisions of the Ohio Revised Code and are valued at cost. Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings with the greatest allocation being to the general fund. Interest revenue is anticipated to remain consistent, due to low interest rates and little money available to invest in both fiscal years 2010 and 2011.

Student class fees are forecasted to remain consistent with prior years, due to no change in the fee schedules.

Other revenue is forecasted to decrease from the prior year due to fewer donations being received for field trips.

All other revenues consist of the following:

	Actual Fiscal Year 2008	Actual Fiscal Year 2009	Actual Fiscal Year 2010	Forecasted Fiscal Year 2011	Variance Increase (Decrease)
Open Enrollment Tuition	$909,000	$940,000	$1,031,000	$1,000,000	($31,000)
Interest	6,000	1,000	3,000	3,000	0
Student Class Fees	19,000	17,000	15,000	15,000	0
Other	31,000	23,000	14,000	8,000	(6,000)
Totals	$965,000	$981,000	$1,063,000	$1,026,000	($37,000)

Other Financing Sources

Proceeds from Sale of Notes – During fiscal year 2008, the School District issued $200,000 in tax anticipation notes at 5.00 percent and $600,000 in tax anticipation notes at 4.75 percent against fiscal year 2009 tax collections. During fiscal year 2009, the School District issued $160,000 in tax anticipation notes at 5.00 percent interest against fiscal year 2010 tax collections. During fiscal year 2010, the School District issued $600,000 in tax anticipation notes at 5.00 percent against fiscal year 2011 tax collections.

Solvency Assistance Advance – During fiscal year 2010, the School District received a Solvency Assistance Fund Advance in the amount of $2,001,000 from the State. The State solvency assistance fund advances money to school districts that are in fiscal emergency or that meet one or more of nine reasons identified in Section 3301-92-03 of the Ohio Administrative Code. The advance will be repaid over two years from State foundation revenues.

Note 7 - Significant Assumptions for Expenditures and Other Financing Uses

Personal Services

Personal services expenditures represent the salaries and wages paid to certified employees, classified and administrative staff, substitutes, tutors and board members. In addition to regular salaries, it includes payment for supplemental contracts, severance pay, and a retirement incentive bonus. All employees receive their compensation on a bi-weekly basis. Administrative and non-bargaining unit salaries are set by the Board of Education.

Staffing levels for the last four fiscal years are displayed in the chart below.

	2008	2009	2010	2011
General Fund:				
Certified	60	62	60	50
Classified	13	13	13	9
Total General Fund	73	75	73	59
Other Funds:				
Certified	1	1	1	1
Classified	2	2	2	2
Total Other Funds	3	3	3	3
Totals	76	78	76	62

Certified (teaching) staff salaries are based on a negotiated contract which includes step increases and educational incentives. Fiscal years 2008 and 2009 included a two and one quarter percent and two and a half percent increase in base salary, respectively, as well as step increases that range from two and a half to five percent. Fiscal year 2010 includes a two and a half percent increase in base salary as well as step increases that range from two and a half to five percent. Fiscal year 2011 includes a freeze in base salary but provides for step increases that range from two and a half to five percent. The current contract covers the period September 1, 2010 through August 31, 2013.

Classified salaries are based on a negotiated contract which includes step increases. The School District has not finalized terms of the contract as of the date of the report, but anticipates the same three year period as the certified contract. Fiscal years 2008 and 2009 included a two and a half percent increase in base salary as well as step increases that range from one to two percent. Fiscal year 2010 includes a two and a half percent increase in base salary as well as step increases that range from one to two percent. Fiscal year 2011 includes a freeze in base salary but provides for step increases from that range one to two percent.

Certified salaries are expected to decline due to a reduction of ten employees from fiscal year 2010 levels. This decrease is comprised of employee retirements/resignations and reduction-in-force decisions offset by the step increases. Classified salaries are expected to decline due to a reduction of four employees from fiscal year 2010 levels. This decrease is comprised of reduction-in-force decisions offset by the step increases and the use of four part time employees.

The School District offered an insurance incentive to employees who participate in the School District's insurance plan. This insurance incentive was to help offset the employee's contribution towards the premium costs. The School District offered an opt-out incentive to employees who chose not to participate in the School District's insurance plan. Both the insurance incentive and the opt-out incentive were eliminated August 31, 2010.

Substitute salaries will decrease slightly while overtime is expected to remain consistent with fiscal year 2010.

Supplemental salaries are expected to decrease $35,000 due to a reduction in the number of supplemental positions being offered. Additionally, supplemental pay will no longer be based on the base pay of the employee. It will now be a predetermined amount set by the Board of Education.

The School District offers severance pay upon retirement to its certified and classified employees with at least ten years of service in the School District. Payments for certified employees and principals are one-fourth of the value of their accumulated sick leave up to eighty days. Payments to administrators are twenty-five percent of the value of their accumulated sick leave up to thirty days for the Superintendent and classified employees receive twenty-five percent of the value of their accumulated sick leave. Certified employees and administrators accumulate sick leave without any limit. Payment is based on the daily rate of pay at retirement.

The Board of Education offered a retirement incentive bonus in fiscal years 2008, 2009 and 2010 to certified employees who were eligible to retire and chose to take the incentive as of June 30 each year. In fiscal year 2008, six employees took the retirement incentive of $20,000 each. The incentive is paid over a five year period with $2,300 in August 2008 and 59 payments at $300 each month from September 2008 through July 2013. In fiscal year 2009, three employees took the retirement incentive of $15,000. The retirement incentive is paid over a five year period with $1,725 in August 2009 and 59 payments at $225 each month from September 2009 through July 2014. In fiscal year 2010, four employees took the retirement incentive of $15,000. The retirement incentive is paid over a five year period with $1,725 in August 2010 and 59 payments at $225 each month from September 2010 through July 2015.

Severance and early retirement incentive costs are anticipated to decrease $17,000 due to fewer employees retiring in fiscal year 2011 and the School District paying down the early retirement incentive costs that were outstanding in fiscal year 2010.

Presented below is a comparison of salaries and wages for fiscal years 2008, 2009, 2010 and the forecast period.

	Actual Fiscal Year 2008	Actual Fiscal Year 2009	Actual Fiscal Year 2010	Forecast Fiscal Year 2011	Variance Increase (Decrease)
Certified Salaries	$3,174,000	$3,183,000	$3,107,000	$2,582,000	($525,000)
Classified Salaries	479,000	510,000	560,000	396,000	(164,000)
Substitute Salaries	132,000	128,000	109,000	82,000	(27,000)
Overtime	16,000	14,000	11,000	11,000	0
Supplemental Contracts	157,000	166,000	163,000	128,000	(35,000)
Severance Pay and Early Retirement Incentives	24,000	167,000	139,000	122,000	(17,000)
Insurance Incentive	0	26,000	28,000	0	(28,000)
Insurance Opt Out	23,000	17,000	16,000	0	(16,000)
Other Salaries and Wages	7,000	11,000	11,000	10,000	(1,000)
Totals	$4,012,000	$4,222,000	$4,144,000	$3,331,000	($813,000)

Employees' Retirement/Insurance Benefits

Employees' retirement and insurance benefits include employer contributions to the State pension systems, health care, medicare, workers' compensation, and other benefits arising from the negotiated agreements.

Retirement costs are based on the employers' contribution rate of 14 percent of salaries for STRS and SERS and an additional SERS surcharge levied to fund health care benefits for employees earning less than a minimum salary amount. Payments are made based upon estimated salary and wages for each fiscal year. Adjustments resulting from differences between the estimates and actuals are prorated over the next calendar year. The School District pays the employee's retirement contributions for its treasurer for fiscal year 2011. In prior fiscal years, the School District paid the employee's retirement contribution for its superintendent and treasurer. The decrease that appears on the schedule below is due to the reduction in staff that occurred for fiscal year 2011.

In years past, SERS has been paid six months in arrears by Ohio school districts. On March 18, 2010, the SERS board decided to give the school districts two options. Option one is for the school district to pay the six month arrearage by June 30, 2010, to become current. Option two is for SERS to spread the six month arrearage amount over the next six years adding this to the current payment. McDonald Local School District has chosen option two; therefore, the School District's retirement costs will increase during fiscal year 2011 which is offset from the decrease from the reduction in employees. The total liability for the School District is $56,544 with annual payments of $9,424.

Health care costs are based on the number of employees participating in the program and the type of coverage (single or family) provided to each employee. The School District participates in Trumbull County Schools Employee Insurance Benefits Consortium (the Consortium). Monthly charges per person for single and family participation in the program are recommended by the Consortium and approved by the Board of Education. The health care program includes medical, prescription drug, dental care, and vision. Health care rates are fixed for a twelve month period from January through December. For fiscal year 2011, no increases in premiums are expected. The decrease in health care/dental/life insurance is due the School District making twelve payments in fiscal year 2011 as opposed to the fifteen payments made to the Consortium during fiscal year 2010. The decrease is also due to 14 less employees at the School District.

The monthly payments per insured for health care and dental benefits are as follows:

Coverage:	Enrollment	Effective July 1, 2009	Enrollment	Effective July 1, 2010
Health				
PPO #1				
Single	12	$427.48	4	$427.48
Family	44	1,111.86	29	1,111.86
PPO #2				
Single	4	383.66	1	383.66
Family	2	998.27	11	998.27
Dental				
Single	6	37.05	10	37.05
Family	62	116.55	58	116.55

Life insurance premiums are based on the coverage amount and the anticipated number of employees participating in the program.

Workers' compensation is based on the School District's assigned rate and the amount of wages paid in a calendar year. Premiums are paid in the following calendar year. The School District may choose to pay either the entire premium in May or 45 percent in May and 55 percent in September. In fiscal year 2010, the School District chose to pay 55 percent of fiscal year 2008's premium and 100 percent of fiscal year 2009's premium. In fiscal year 2011, the School District anticipates paying the entire premium in May. Beginning in fiscal year 2011, the School District participates in Sheakley's Group Rating Plan. This resulted in a .007 reduction in the premium rate for fiscal year 2011.

The School District anticipates an increase in unemployment for fiscal year 2011 due to the number of layoffs that occurred.

The School District offers a match for the administrators' contribution to the Ohio Deferred Compensation Plan up to a maximum of $2,000.

Presented below is a comparison of past three fiscal years and the forecast period:

	Actual Fiscal Year 2008	Actual Fiscal Year 2009	Actual Fiscal Year 2010	Forecast Fiscal Year 2011	Variance Increase (Decrease)
Employer's Retirement	$582,000	$595,000	$606,000	$553,000	($53,000)
Health Care/Dental/Life Insurance	898,000	589,000	948,000	595,000	(353,000)
Workers' Compensation	57,000	35,000	56,000	23,000	(33,000)
Medicare	43,000	47,000	48,000	47,000	(1,000)
Unemployment	7,000	7,000	1,000	61,000	60,000
Tuition Reimbursement	5,000	6,000	8,000	10,000	2,000
Ohio Deferred Compensation	8,000	3,000	2,000	2,000	0
Meeting Expenses	3,000	8,000	2,000	1,000	(1,000)
Totals	$1,603,000	$1,290,000	$1,671,000	$1,292,000	($379,000)

Purchased Services

Presented below is a comparison of purchased service expenditures for the past three fiscal years and the forecast period:

	Actual Fiscal Year 2008	Actual Fiscal Year 2009	Actual Fiscal Year 2010	Forecast Fiscal Year 2011	Increase (Decrease)
Professional and Technical Services	$31,000	$43,000	$39,000	$57,000	$18,000
Property Services	167,000	73,000	66,000	65,000	(1,000)
Travel and Meeting Expenses	13,000	11,000	7,000	7,000	0
Communication Costs	15,000	9,000	10,000	12,000	2,000
Utility Services	252,000	263,000	242,000	232,000	(10,000)
Tuition and Other Similar Payments	383,000	344,000	278,000	429,000	151,000
Pupil Transportation	55,000	8,000	50,000	25,000	(25,000)
Other Purchased Services	1,000	1,000	0	1,000	1,000
Totals	$917,000	$752,000	$692,000	$828,000	$136,000

Professional and technical services are expected to increase due to the School District paying for a lease that was previously paid from general supplies. An increase in tuition and other similar payments is expected due to the School District paying additional excess costs out of the general fund in fiscal year 2011 that were previously paid from American Recovery and Reinvestment Act Grant deposited in title VI-B grant fund. The School District had the option of spending the money in title VI-B over one or two years and they chose to spend it all in fiscal year 2010. Pupil transportation is expected to decrease due to money spent in fiscal year 2010 that was from held bills from fiscal year 2009.

Supplies and Materials

Presented below are the supplies and materials expenditures for the past three fiscal years and the forecast period:

	Actual Fiscal Year 2008	Actual Fiscal Year 2009	Actual Fiscal Year 2010	Forecast Fiscal Year 2011	Variance Increase (Decrease)
General Supplies, Library Books and Periodicals	$133,000	$123,000	$94,000	$83,000	($11,000)
Operations, Maintenance and Repair	94,000	92,000	75,000	77,000	2,000
Textbooks	69,000	35,000	35,000	35,000	0
Totals	$296,000	$250,000	$204,000	$195,000	($9,000)

Supplies and materials are forecasted to decrease due to the School District cutting costs as well as moving where the copier lease is charged from general supplies to purchased services in fiscal year 2011.

Capital Outlay

The acquisition or construction of property, plant and equipment acquired or used for instructional and support services is recorded as capital outlay. The School District intends to replace 20 computers and expects to keep expenditures for fiscal year 2011 around $5,000.

Debt Service

The principal and interest payments for the tax anticipation notes for fiscal years 2008 through 2010 consist of the following:

Type of Debt	Date Issued	Maturity Date	Amount Issued	Date Paid	Paid Principal	Paid Interest
2008 Tax Anticipation Note	6/30/2007	3/31/2008	$250,000	3/31/2008	$250,000	$9,000
2008 Tax Anticipation Note	1/3/2008	11/25/2008	200,000	11/25/2008	200,000	7,000
2009 Tax Anticipation Note	6/20/2008	6/30/2009	600,000	1/31/2010	600,000	32,000
2009 Tax Anticipation Note	12/10/2008	12/9/2009	160,000	11/23/2009	160,000	8,000
2009 Tax Anticipation Note	12/1/2008	12/1/2009	90,000	11/23/2009	90,000	5,000
2010 Tax Anticipation Note	8/12/2009	2/12/2010	600,000	2/11/2010	600,000	15,000

During fiscal year 2008, the School District issued a $600,000 tax anticipation note. This note was due during fiscal year 2009 and was not paid. The School District issued another $600,000 note during fiscal year 2010 to pay off the delinquent note that was due during fiscal year 2009. This note was paid in full during fiscal year 2010.

During fiscal year 2010, the School District received $2,001,000 in a solvency assistance advance. The advance is repaid with State foundation monies in fiscal years 2011 and 2012.

Other Objects

Other object expenditures consist of dues and fees, insurance and awards. The $33,000 increase is due to an increase in audit fees. The last audit was for fiscal year 2009.

Advances Out

Advances out are anticipated to be $50,000 for fiscal year 2011. The School District is increasing the cost of lunches from $2.00 to $2.50 and is looking at cost savings from joining a food consortium. These savings will be realized which will allow for the advance to be paid. The School District does not believe that the advances will be paid back for a few years in full to the general fund.

Note 8 - Encumbrances

Encumbrances represent purchase authorizations and contracts for goods or services that are pending vendor performance and those purchase commitments which have been performed, invoiced, and are awaiting payment. Encumbrances on a budget basis of accounting are treated as the equivalent of an expenditure at the time authorization is made in order to maintain compliance with spending restrictions established by Ohio law. For presentation in the forecast, outstanding encumbrances are presented as a reduction of the general fund cash balance.

Encumbrances for personal services, fringe benefits, purchased services and supplies and materials, were greater in fiscal years 2008, 2009 and 2010. Encumbrances for fiscal year 2011 are expected to decrease due to the School District anticipating staying current with its fiscal year 2011 bills. Fiscal year 2011, encumbrances are forecasted to be $25,000.

Note 9 - Reservations of Fund Balance

The School District is required by State statute to annually set aside in the general fund three percent of certain revenues for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by year-end or offset by similarly restricted resources received during the year must be held in cash at year-end and carried forward to be used for the same purposes in future years.

Under Sections 3315.17(B)(2) and 3315.18(D)(1), Revised Code, a Board of Education in fiscal emergency may deposit less than the required set aside or make no deposit into the textbook and capital set asides. The Board of Education by resolution waived the set-aside requirement for fiscal year 2011 for textbooks and instructional material. Therefore, no reserve amount is forecasted for textbook set-asides.

Capital and Maintenance Set-Aside

The set aside amount for fiscal year 2011 is anticipated to be $156,000. The School District anticipates $211,000 in offsets and $28,000 in qualifying expenditures during the current fiscal year. Therefore, no reserve amount is forecasted for capital acquisition and improvements.

Bus Purchase Allowance Set-Aside

At June 30, 2009, the School District had $4,000 in unspent bus monies. The School District paid $24,000 on the purchase of one new bus in fiscal year 2010. At June 30, 2011, the School District had no unspent bus purchase monies, therefore no reserve for bus purchase is forecasted.

Note 10 - Levies

The School District has placed several levies on the ballot in the last 10 years. The type of levy, millage amount, term and election results are as follows:

Date	Type	Amount	Term	Election Results
May 2001	Permanent Improvement	2 mills	5 Years	Passed
November 2002	Emergency	$200,147	5 Years	Passed
November 2004	Emergency	$108,500	5 Years	Failed
November 2005	Permanent Improvement	4.9 mills	Continuing	Failed
May 2006	Permanent Improvement	4.5 mills	Continuing	Failed
November 2006	Permanent Improvement	2 mills	5 Years	Passed
November 2007	Emergency	$200,147	5 Years	Passed
November 2009	Emergency	$260,000	5 Years	Passed

Note 11 – Pending Litigation

The School District's management is of the opinion that there are no issues that would have a material effect on the financial forecast.

Note 12 – Financial Planning and Supervision Commission

On October 15, 2009, the School District was declared to be in a state of "Fiscal Emergency" by the Auditor of State. Legislation effective September 1996, permitted this declaration due to the School District's declining financial condition. In accordance with the law, a five-member Financial Planning and Supervision Commission has been established to oversee the financial affairs of the School District. The Commission is comprised of the State Superintendent of Public Instruction and the State Director of Budget and Management or their designees, and three appointed members. The appointments are made by the Governor of the State of Ohio, the State Superintendent of Public Instruction and the Mayor of the Village of McDonald. The Commission's primary charge is to develop, adopt and implement a financial recovery plan. Once the plan has been adopted, the Board of Education's discretion is limited in that all financial activity of the School District must be in accordance with the plan.

The financial recovery plan was adopted on February 22, 2010 and under State law is to be updated annually. The recovery plan included the reduction of 4 full time employees from the general fund for fiscal year 2010. In addition, the plan included reductions in substitute rates and various contracts that the School District maintains as expenditures and the passage of an emergency levy to generate new revenue. For fiscal year 2011, the plan included the reduction of 20 full-time and part-time equivalents. 14 full-time employees were reduced along with 6 part-time workers. The plan also included the second half collections on the passage of the emergency levy to generate full year revenue. For fiscal year 2012, the plan includes the savings realized from the replacement of 5 teachers at the lower level of the pay scale for additional savings. The recovery plan, does not address periods beyond fiscal year 2012.

Note 13 - Information Related to Periods Beyond the Forecast Period

Management is required to annually prepare and file a five-year financial plan with the Ohio Department of Education. The last financial plan was for the fiscal years 2010 through 2014. The plan assumed the continued operation of the School District with decreases in revenues in each of the five fiscal years and a decrease in expenditures in fiscal years 2011 and 2013 with a slight increase in expenditures in fiscal year 2014. The plan did not account for the passage of the new emergency levy which has resulted in an increase in revenues. An operating deficit is forecasted in fiscal years 2011, 2012 and 2014.

The information presented in this note is less reliable than the information presented in the financial forecast, and accordingly, is presented for analysis purposes only. Furthermore, there can be no assurance that events and circumstances described in this note will occur.

Additionally, the School District and the Ohio Schools Facility Commission (the "Commission") are working together to determine if money was misspent on improvements that were not within the plan. The liability has been estimated to be between $300,000 and $500,000. The School District is currently working with the Commission to rectify this situation and to determine what liability, if any, the School District would have. At the date of this report, that liability could not be determined. No repayment has been included in the forecast for 2011.

Mary Taylor, CPA
Auditor of State

MCDONALD LOCAL SCHOOL DISTRICT

TRUMBULL COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
NOVEMBER 18, 2010

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