



Mary Taylor, CPA
Auditor of State

**MCDONALD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

McDonald Local School District
Trumbull County
600 Iowa Avenue
McDonald, Ohio 44437

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of McDonald Local School District, Trumbull County, Ohio (the District), as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of McDonald Local School District, Trumbull County, Ohio, as of June 30, 2007, and the respective changes in financial position and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming the District will continue as a going concern. As discussed in Note 19 to the financial statements, the District has suffered recurring losses from operations that raise substantial doubt about its ability to continue as a going concern. In addition, the Auditor of State has determined a fiscal emergency exists, and a financial planning and supervision commission has assumed certain management responsibilities for the duration of the emergency pursuant to Chapter 3316 of the Ohio Rev.Code. Note 19 describes management's plans regarding these matters. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 21, 2010, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Mary Taylor, CPA
Auditor of State

May 21, 2010

**MCDONALD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED**

The discussion and analysis of the McDonald Local School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2007. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2007 are as follows:

- In total, net assets of governmental activities decreased \$903,310 which represents a 6.26% decrease from 2006.
- General revenues accounted for \$5,600,065 in revenue or 80.54% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$1,352,992 or 19.46% of total revenues of \$6,953,057.
- The District had \$7,856,367 in expenses related to governmental activities; \$1,352,992 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$5,600,065 were not adequate to provide for these programs.
- The District's major governmental fund is the general fund. The general fund had \$5,949,204 in revenues and \$6,146,975 in expenditures. During fiscal year 2007, the general fund deficit increased \$197,771 from \$645,703 to \$843,474.

Using these Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds with all other nonmajor funds presented in total in one column. In the case of the District, the general fund is by far the most significant fund, and the only governmental fund reported as a major fund.

**MCDONALD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2007?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the District's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the District as a whole, the *financial position* of the District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

In the Statement of Net Assets and the Statement of Activities, the Governmental Activities include the District's programs and services, including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities, and food service operations.

The District's statement of net assets and statement of activities can be found on pages 13-14 of this report.

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major governmental funds begins on page 9. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's only major governmental fund is the general fund.

Governmental Funds

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* than can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 15-19 of this report.

**MCDONALD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private-purpose trust fund. The District also acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 20 and 21. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 22-49 of this report.

The District as a Whole

Recall that the Statement of Net Assets provides the perspective of the District as a whole.

The table below provides a summary of the District's net assets for 2007 and 2006.

	Net Assets	
	Governmental Activities <u>2007</u>	Governmental Activities <u>2006</u>
<u>Assets</u>		
Current and other assets	\$ 2,057,348	\$ 1,882,001
Capital assets	<u>16,451,851</u>	<u>17,105,062</u>
Total assets	<u>18,509,199</u>	<u>18,987,063</u>
<u>Liabilities</u>		
Current liabilities	2,760,008	2,206,134
Long-term liabilities	<u>2,221,681</u>	<u>2,350,109</u>
Total liabilities	<u>4,981,689</u>	<u>4,556,243</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	14,792,987	15,239,493
Restricted	105,826	160,647
Unrestricted (deficit)	<u>(1,371,303)</u>	<u>(969,320)</u>
Total net assets	<u>\$ 13,527,510</u>	<u>\$ 14,430,820</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2007, the District's assets exceeded liabilities by \$13,527,510. Of this total, \$105,826 is restricted in use.

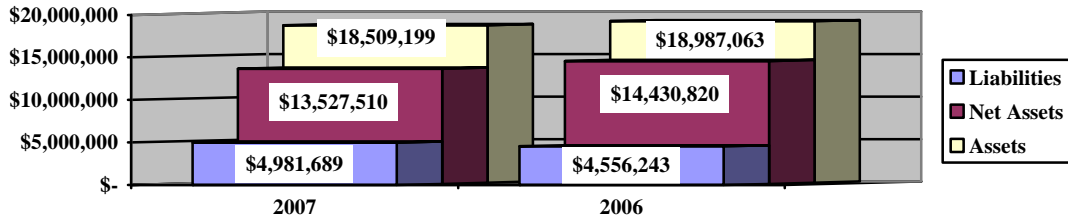
**MCDONALD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED**

At year-end, capital assets represented 88.88% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2007, were \$14,792,987. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$105,826, represents resources that are subject to external restriction on how they may be used. The remaining deficit of unrestricted net assets is \$1,371,303.

Governmental Activities



The table below shows the change in net assets for fiscal year 2007 and 2006:

	Change in Net Assets	
	Governmental	Governmental
	Activities	Activities
	2007	2006
Revenues		
Program revenues:		
Charges for services and sales	\$ 1,002,234	\$ 960,462
Operating grants and contributions	343,758	330,133
Capital grants and contributions	7,000	16,126
General revenues:		
Property taxes	1,585,151	1,465,422
Grants and entitlements	3,936,706	3,696,653
Investment earnings	7,141	9,055
Other	71,067	74,169
Total revenues	6,953,057	6,552,020

**MCDONALD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED

Change in Net Assets

	Governmental Activities <u>2007</u>	Governmental Activities <u>2006</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 4,678,572	\$ 4,174,301
Special	735,488	726,318
Vocational	82,413	54,151
Support services:		
Pupil	176,994	180,198
Instructional staff	71,126	103,618
Board of education	44,345	43,962
Administration	555,908	567,491
Fiscal	197,554	190,235
Operations and maintenance	673,942	513,580
Pupil transportation	124,281	125,772
Central	13,752	14,833
Food service operations	152,311	120,601
Extracurricular activities	255,127	260,768
Interest and fiscal charges	<u>94,554</u>	<u>110,779</u>
Total expenses	<u>7,856,367</u>	<u>7,186,607</u>
Change in net assets	(903,310)	(634,587)
Net assets at beginning of year	<u>14,430,820</u>	<u>15,065,407</u>
Net assets at end of year	<u><u>\$ 13,527,510</u></u>	<u><u>\$ 14,430,820</u></u>

Governmental Activities

Net assets of the District's governmental activities decreased \$903,310. Total governmental expenses of \$7,856,367 were offset by program revenues of \$1,352,992 and general revenues of \$5,600,065. Program revenues supported 17.22% of the total governmental expenses.

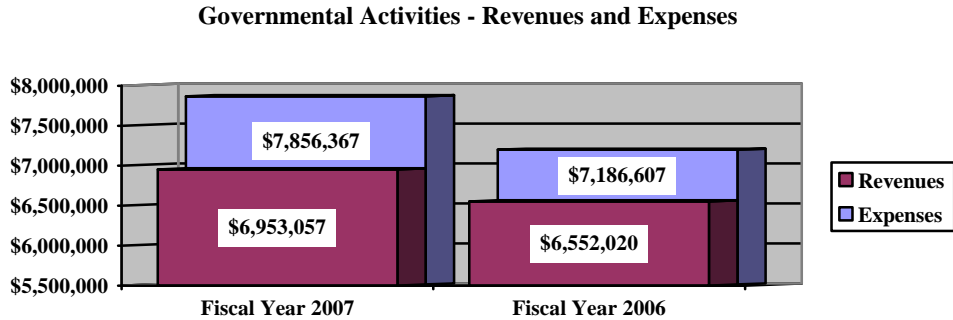
The primary sources of revenue for governmental activities are derived from property taxes, and grants and entitlements. These revenue sources represent 79.42% of total governmental revenue.

The largest expense of the District is for instructional programs. Instruction expenses totaled \$5,496,473 or 69.96% of total governmental expenses for fiscal 2007.

**MCDONALD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED**

The graph below presents the District's governmental activities revenue and expenses for fiscal year 2007 and 2006.



The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements.

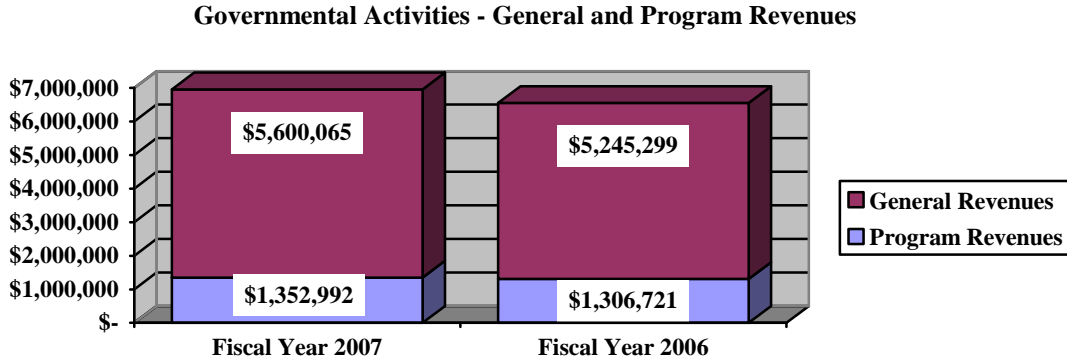
	Governmental Activities			
	Total Cost of Services <u>2007</u>	Net Cost of Services <u>2007</u>	Total Cost of Services <u>2006</u>	Net Cost of Services <u>2006</u>
Program expenses				
Instruction:				
Regular	\$ 4,678,572	\$ 3,800,660	\$ 4,174,301	\$ 3,332,591
Special	735,488	539,321	726,318	529,990
Vocational	82,413	82,413	54,151	54,151
Support services:				
Pupil	176,994	176,994	180,198	180,198
Instructional staff	71,126	71,126	103,618	103,618
Board of education	44,345	44,345	43,962	43,962
Administration	555,908	524,944	567,491	522,461
Fiscal	197,554	197,159	190,235	189,618
Operations and maintenance	673,942	649,109	513,580	493,717
Pupil transportation	124,281	124,281	125,772	125,772
Central	13,752	13,752	14,833	14,833
Food service operations	152,311	9,658	120,601	13,362
Extracurricular activities	255,127	175,059	260,768	164,834
Interest and fiscal charges	94,554	94,554	110,779	110,779
Total expenses	<u>\$ 7,856,367</u>	<u>\$ 6,503,375</u>	<u>\$ 7,186,607</u>	<u>\$ 5,879,886</u>

The dependence upon tax and other general revenues for governmental activities is apparent, 80.46% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 82.78%. The District's taxpayers, as a whole, are by far the primary support for District's students.

**MCDONALD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED

The graph below presents the District's governmental activities revenue for fiscal year 2007 and 2006.



The District's Funds

The District's governmental funds reported a combined fund deficit balance of \$893,601, which is a larger deficit than last year's fund deficit balance of \$513,049. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2007 and 2006.

	Fund Deficit <u>June 30, 2007</u>	Fund Balance (Deficit) <u>June 30, 2006</u>	<u>(Decrease)</u>	Percentage <u>Change</u>
General	\$ (843,474)	\$ (645,703)	\$ (197,771)	(30.63) %
Other Governmental	<u>(50,127)</u>	<u>132,654</u>	<u>(182,781)</u>	(137.79) %
Total	<u>\$ (893,601)</u>	<u>\$ (513,049)</u>	<u>\$ (380,552)</u>	(74.17) %

General Fund

The District's general fund deficit balance increased \$197,771. The increase in fund deficit can be attributed to several items related to increasing revenues and increased expenditures. Expenditures exceed revenues for fiscal year 2007 by \$197,771. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

**MCDONALD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED**

	<u>2007</u> <u>Amount</u>	<u>2006</u> <u>Amount</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>				
Taxes	\$ 1,159,537	\$ 1,065,330	\$ 94,207	8.84 %
Tuition	820,513	768,518	51,995	6.77 %
Earnings on investments	7,141	9,055	(1,914)	(21.14) %
Intergovernmental	3,917,231	3,677,124	240,107	6.53 %
Other revenues	<u>44,782</u>	<u>54,154</u>	<u>(9,372)</u>	(17.31) %
Total	<u>\$ 5,949,204</u>	<u>\$ 5,574,181</u>	<u>\$ 375,023</u>	6.73 %
<u>Expenditures</u>				
Instruction	\$ 4,335,204	\$ 3,841,098	\$ 494,106	12.86 %
Support services	1,506,865	1,456,981	49,884	3.42 %
Extracurricular activities	171,475	159,240	12,235	7.68 %
Debt service	<u>133,431</u>	<u>133,430</u>	<u>1</u>	0.00 %
Total	<u>\$ 6,146,975</u>	<u>\$ 5,590,749</u>	<u>\$ 556,226</u>	9.95 %

General Fund Budgeting Highlights

The District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the general fund.

During the course of fiscal 2007, the District amended its general fund budget several times. For the general fund, original budgeted revenues and other financing sources were \$5,955,000 and final budgeted revenues and other financing sources were \$5,944,580. Actual revenues and other financing sources for fiscal 2007 were \$6,196,646, which was \$252,066 more than the final budgeted revenues.

General fund original appropriations (appropriated expenditures including other financing uses) of \$5,926,798 were left the same in the final appropriations. The actual budget basis expenditures for fiscal year 2007 totaled \$6,037,780, which was \$110,982 more than the final budget appropriations.

**MCDONALD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2007, the District had \$16,451,851 invested in land, land improvements, buildings and improvements, furniture and equipment and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal 2007 balances compared to 2006:

**Capital Assets at June 30
(Net of Depreciation)**

	Governmental Activities	
	2007	2006
Land	\$ 311,600	\$ 311,600
Land improvements	379,327	404,001
Building and improvements	15,516,226	16,109,957
Furniture and equipment	233,499	260,838
Vehicles	11,199	18,666
Total	\$ 16,451,851	\$ 17,105,062

The overall decrease in capital assets of \$653,211 is due to depreciation expense of \$700,660 being more than capital outlays of \$47,449 in the fiscal year.

See Note 8 to the basic financial statements for additional information on the District's capital assets.

Debt Administration

At June 30, 2007, the District had \$1,570,100 in general obligation bonds outstanding. Of this total, \$100,000 is due within one year and \$1,470,100 is due within greater than one year. The following table summarizes the bonds outstanding.

Outstanding Debt, at Year End

	Governmental Activities	Governmental Activities
	2007	2006
General obligation bonds	\$ 1,570,100	\$ 1,628,777
Total	\$ 1,570,100	\$ 1,628,777

See Note 10 and 11 to the basic financial statements for additional information on the District's debt administration.

**MCDONALD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED**

Current Financial Related Activities

Since the end of fiscal year 2009, the District has been faced with numerous issues that have taken place. The District's Treasurer of approximately 18 years resigned from his position. In the transition, it was brought to the District's attention that the financial condition of the District was not as presented. The Local Government Services division of the Auditor of State's office was brought into the District to assist. Once their work was completed, the District was projected to be \$2,001,000 in the red as of June 30, 2010. The McDonald Local School District was declared to be in Fiscal Emergency effective October 15, 2009.

Since that time, a Financial Planning and Supervision Commission has been seated and meeting on a monthly basis to develop and implement a recovery plan to assist the district in bringing its finances back in line. The recovery plan is anticipated to be in place by the end of February.

The District has passed an Emergency Levy that will generate \$260,000 per year with collection of \$130,000 anticipated from January 1, 2010 through June 30, 2010.

Audits have been underway since prior to the declaration of Fiscal Emergency status, and are on-going as well. With the continued support of the community and staff, the District expects to fully recover from its current situation in future years through the implementation of the recovery plan and oversight of the Financial Planning and Supervision Commission.

Contacting the District's Financial Management

This financial report is designed to provide our citizen's taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Mr. Brian Stidham, Treasurer, McDonald Local School District, 600 Iowa Avenue, McDonald, Ohio 44437-1699.

**MCDONALD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

STATEMENT OF NET ASSETS
JUNE 30, 2007

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents. . .	\$ 288,506
Receivables:	
Taxes	1,713,836
Intergovernmental	6,006
Materials and supplies inventory	133
Unamortized bond issue costs	48,867
Capital assets:	
Land	311,600
Depreciable capital assets, net	16,140,251
Capital assets, net.	16,451,851
 Total assets.	 18,509,199
Liabilities:	
Accounts payable.	36,973
Accrued wages and benefits	471,441
Pension obligation payable.	138,599
Intergovernmental payable	150,341
Unearned revenue	1,551,616
Accrued interest payable	11,038
Notes payable	400,000
Long-term liabilities:	
Due within one year.	265,548
Due within more than one year	1,956,133
Total liabilities	4,981,689
Net Assets:	
Invested in capital assets, net of related debt.	14,792,987
Restricted for:	
Capital projects	29,823
Debt service.	37,935
Classroom facilities maintenance	151
Student activities	3,643
Other purposes	34,274
Unrestricted (deficit)	(1,371,303)
Total net assets	\$ 13,527,510

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MCDONALD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

		Program Revenues				Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	
Governmental activities:						
Instruction:						
Regular	\$ 4,678,572	\$ 839,577	\$ 35,425	\$ 2,910		\$ (3,800,660)
Special	735,488	-	196,167	-		(539,321)
Vocational	82,413	-	-	-		(82,413)
Support services:						
Pupil	176,994	-	-	-		(176,994)
Instructional staff	71,126	-	-	-		(71,126)
Board of education	44,345	-	-	-		(44,345)
Administration	555,908	23,964	7,000	-		(524,944)
Fiscal	197,554	-	358	37		(197,159)
Operations and maintenance	673,942	-	20,780	4,053		(649,109)
Pupil transportation	124,281	-	-	-		(124,281)
Central	13,752	-	-	-		(13,752)
Food service operations	152,311	58,625	84,028	-		(9,658)
Extracurricular activities	255,127	80,068	-	-		(175,059)
Interest and fiscal charges	94,554	-	-	-		(94,554)
Total governmental activities	\$ 7,856,367	\$ 1,002,234	\$ 343,758	\$ 7,000		(6,503,375)
 General Revenues:						
Property taxes levied for:						
General purposes						1,169,047
Special revenue						205,667
Debt service						152,863
Capital projects						57,574
Grants and entitlements not restricted to specific programs						3,936,706
Investment earnings						7,141
Miscellaneous						71,067
Total general revenues						5,600,065
Change in net assets						(903,310)
Net assets at beginning of year						14,430,820
Net assets at end of year						\$ 13,527,510

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MCDONALD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2007

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:			
Equity in pooled cash and cash equivalents	\$ 126,476	\$ 127,756	\$ 254,232
Receivables:			
Taxes	1,273,051	440,785	1,713,836
Intergovernmental	-	6,006	6,006
Due from other funds.	6,856	-	6,856
Materials and supplies inventory	-	133	133
Restricted assets:			
Equity in pooled cash and cash equivalents	34,274	-	34,274
Total assets	<u>\$ 1,440,657</u>	<u>\$ 574,680</u>	<u>\$ 2,015,337</u>
Liabilities:			
Accounts payable	\$ 29,295	\$ 7,678	\$ 36,973
Accrued wages and benefits	456,666	14,775	471,441
Pension obligation payable.	135,185	3,414	138,599
Intergovernmental payable.	146,699	3,642	150,341
Due to other funds.	-	6,856	6,856
Deferred revenue.	113,732	39,380	153,112
Unearned revenue	1,152,554	399,062	1,551,616
Notes payable	250,000	150,000	400,000
Total liabilities	<u>2,284,131</u>	<u>624,807</u>	<u>2,908,938</u>
Fund Balances:			
Reserved for materials and supplies inventory.	-	133	133
Reserved for debt service	-	33,656	33,656
Reserved for property tax unavailable for appropriation	6,765	2,343	9,108
Reserved for school bus purchases.	991	-	991
Reserved for instructional materials	33,283	-	33,283
Unreserved, undesignated (deficit), reported in:			
General fund	(884,513)	-	(884,513)
Special revenue funds.	-	(15,309)	(15,309)
Capital projects funds.	-	(70,950)	(70,950)
Total fund balances (deficit)	<u>(843,474)</u>	<u>(50,127)</u>	<u>(893,601)</u>
Total liabilities and fund balances	<u>\$ 1,440,657</u>	<u>\$ 574,680</u>	<u>\$ 2,015,337</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MCDONALD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2007

Total governmental fund balances (deficit)		\$ (893,601)
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		16,451,851
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Taxes	\$ 153,112	
Total		153,112
Unamortized bond issuance costs are not recognized in the funds governmental activities in the statement of net assets.		48,867
Unamortized premiums on bond issuance is not recognized in the funds.		(132,822)
Unamortized deferred charges on refundings are not recognized in the funds.		86,229
Accrued interest payable is not due and payable in the current period and is therefore not reported in the funds.		(11,038)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
General obligation bonds payable	1,570,100	
Capital lease obligation	30,078	
Lease purchase agreements	109,789	
Retirement incentive	20,000	
Compensated absences	445,121	
Total		<u>(2,175,088)</u>
Net assets of governmental activities		<u><u>\$ 13,527,510</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MCDONALD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
From local sources:			
Taxes	\$ 1,159,537	\$ 415,454	\$ 1,574,991
Tuition.	820,513	-	820,513
Earnings on investments.	7,141	-	7,141
Charges for services.	-	58,625	58,625
Extracurricular.	-	104,032	104,032
Classroom materials and fees	19,064	-	19,064
Other local revenues.	25,718	45,349	71,067
Intergovernmental - State.	3,917,231	81,099	3,998,330
Intergovernmental - Federal	-	297,134	297,134
Total revenue	<u>5,949,204</u>	<u>1,001,693</u>	<u>6,950,897</u>
Expenditures:			
Current:			
Instruction:			
Regular	3,754,331	159,860	3,914,191
Special.	498,460	235,571	734,031
Vocational.	82,413	-	82,413
Support services:			
Pupil.	176,046	-	176,046
Instructional staff	71,126	-	71,126
Board of education	42,691	-	42,691
Administration.	507,932	37,894	545,826
Fiscal	195,768	4,045	199,813
Operations and maintenance.	383,900	281,417	665,317
Pupil transportation	116,814	-	116,814
Central.	12,588	-	12,588
Food service operations	-	147,678	147,678
Extracurricular activities.	171,475	82,617	254,092
Facilities acquisition and construction	-	86,000	86,000
Debt service:			
Principal retirement	126,705	80,000	206,705
Interest and fiscal charges	6,726	69,392	76,118
Total expenditures	<u>6,146,975</u>	<u>1,184,474</u>	<u>7,331,449</u>
Net change in fund balances	(197,771)	(182,781)	(380,552)
Fund balances (deficit) at beginning of year.	<u>(645,703)</u>	<u>132,654</u>	<u>(513,049)</u>
Fund balances (deficit) at end of year	<u>\$ (843,474)</u>	<u>\$ (50,127)</u>	<u>\$ (893,601)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MCDONALD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Net change in fund balances - total governmental funds	\$	(380,552)
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.		
Capital asset additions	47,449	
Depreciation expense	(700,660)	
Total		(653,211)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Taxes	10,160	
Intergovernmental	(8,000)	
Total		2,160
Repayment of bond and lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets.		
		206,705
Governmental funds report expenditures for interest when it is due. In the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due. The following resulted in additional interest being reported on the statement of activities:		
Decrease in accrued interest payable	3,035	
Accreted interest on capital appreciation bonds	(21,323)	
Amortization of bond issuance costs	(3,170)	
Amortization on bond premiums	8,615	
Amortization of deferred charge on refunding	(5,593)	
Total		(18,436)
Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.		
		(39,976)
Some expenses reported in the statement of activities, such as retirement incentives, do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.		
		(20,000)
Change in net assets of governmental activities	\$	(903,310)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MCDONALD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>(Negative)</u>
Revenues:				
From local sources:				
Taxes	\$ 1,260,000	\$ 1,109,916	\$ 1,156,979	\$ 47,063
Tuition.	764,397	787,136	820,513	33,377
Earnings on investments.	6,653	6,851	7,141	290
Classroom materials and fees	17,761	18,289	19,064	775
Other local revenues	16,800	17,300	18,034	734
Intergovernmental - State	3,649,328	3,757,886	3,917,231	159,345
Total revenue	<u>5,714,939</u>	<u>5,697,378</u>	<u>5,938,962</u>	<u>241,584</u>
Expenditures:				
Current:				
Instruction:				
Regular	3,724,992	3,724,992	3,696,623	28,369
Special.	404,667	404,667	494,461	(89,794)
Vocational.	79,261	79,261	82,096	(2,835)
Support services:				
Pupil.	172,557	172,557	178,522	(5,965)
Instructional staff	74,275	74,275	74,664	(389)
Board of education	39,512	39,512	42,303	(2,791)
Administration.	462,561	462,561	513,981	(51,420)
Fiscal	204,047	204,047	192,408	11,639
Operations and maintenance.	485,133	485,133	472,913	12,220
Pupil transportation	104,633	104,633	110,114	(5,481)
Central.	18,025	18,025	12,388	5,637
Extracurricular activities.	157,135	157,135	167,307	(10,172)
Total expenditures	<u>5,926,798</u>	<u>5,926,798</u>	<u>6,037,780</u>	<u>(110,982)</u>
Excess of revenues over (under) expenditures.	<u>(211,859)</u>	<u>(229,420)</u>	<u>(98,818)</u>	<u>130,602</u>
Other financing sources (uses):				
Sale of notes	232,903	239,831	250,000	10,169
Refund of prior year expenditure.	7,158	7,371	7,684	313
Total other financing sources (uses)	<u>240,061</u>	<u>247,202</u>	<u>257,684</u>	<u>10,482</u>
Net change in fund balance	28,202	17,782	158,866	141,084
Fund balance at beginning of year.	3,962	3,962	3,962	-
Prior year encumbrances appropriated	1,612	1,612	1,612	-
Fund balance at end of year	<u>\$ 33,776</u>	<u>\$ 23,356</u>	<u>\$ 164,440</u>	<u>\$ 141,084</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MCDONALD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2007

	Private-Purpose Trust	
	Scholarship	Agency
Assets:		
Equity in pooled cash and cash equivalents	\$ 7,840	\$ 34,075
Total assets.	7,840	\$ 34,075
Liabilities:		
Accounts payable.	-	\$ 3,430
Due to students	-	30,645
Total liabilities	-	\$ 34,075
Net Assets:		
Held in trust for scholarships	7,840	
Total net assets	\$ 7,840	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MCDONALD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	Private-Purpose Trust
	Scholarship
Additions:	
Gifts and contributions.	\$ 12,544
Total additions.	12,544
Reductions:	
Scholarships awarded	16,409
Change in net assets	(3,865)
Net assets at beginning of year	11,705
Net assets at end of year	\$ 7,840

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**MCDONALD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

The McDonald Local School District (the "District") is organized under Section 2 and 3, Article VI of the Constitution of the State of Ohio to provide educational services to students and other community members of the District. Under such laws there is no authority for a school district to have a charter or adopt local laws. 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 by the citizens of the District.

The District serves an area of approximately 3 square miles in Trumbull County, including the village of McDonald and portions of surrounding townships.

The District is the 510th largest in the State of Ohio (among 876 public school districts in the state) in terms of enrollment. It currently operates one elementary school and one comprehensive middle/high school. The District is staffed by 57 certified and 17 non-certified personnel to provide services to approximately 915 students and other community members.

On October 15, 2009, the Auditor of State declared the District in a state of fiscal emergency as defined by in Section 3316.03B(5) of the Ohio Revised Code. In accordance with law, a five member Financial Planning and Supervision Commission was established to oversee all financial affairs of the District. The Commission is comprised of two appointees by the State Superintendent of Public Instruction, an appointee by the State Director of Budget and Management, an appointee by the Governor of the State, and an appointee by the Mayor of the Village of McDonald. The Commission's primary responsibility is to develop, adopt, and implement a financial recovery plan. Once the plan is adopted, the Board of Education's discretion is limited in that all financial activity of the District must be in accordance with the plan.

The Financial Recovery Plan was adopted on February 22, 2010, and under Ohio law, must be updated annually. The Recovery Plan included reductions of administrative staff, classified staff, certified staff, supplemental positions, and early retirement incentive plus other expenses in fiscal years 2011 and 2010. See Note 19 for more information on the District's fiscal emergency status.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989 to its governmental activities provided they do not conflict with or contradict GASB pronouncements. The District's significant accounting policies are described below.

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity", and as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units". The reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure that the basic financial statements of the District are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, food service, preschool, and student related activities of the District.

**MCDONALD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt, or the levying of taxes. Based upon the application of these criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government). The following organizations are described due to their relationship to the District:

JOINTLY GOVERNED ORGANIZATIONS

Northeast Ohio Management Information Network (NEOMIN)

NEOMIN is a jointly governed organization among 28 school districts and 2 county educational service centers. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to the administrative and instructional functions among member districts. Each of the governments of these schools supports NEOMIN based upon a per pupil charge dependent upon the software package utilized. In the event of dissolution of the organization, all current members will share in net obligations or asset liquidations in a ratio proportionate to their last twelve months financial contribution. NEOMIN is governed by a Board of Directors consisting of superintendents of the members school districts. The degree of control exercised by any school district is limited to its representation on the Board. In accordance with GASB Statement No. 14, the District does not have any equity interest in NEOMIN as a residual interest in the net resources of a joint venture upon dissolution is not equivalent to an equity interest.

Complete financial statements for the NEOMIN may be obtained from the administrative offices at 528 Educational Highway, Warren, Ohio 44483.

North East Ohio Instructional Media Center (NEOIMC)

NEOIMC is a jointly governed organization among 45 school districts. The organization was formed for the purpose of providing quality films and/or other media to support the curricula of the District. Each member pays a monthly premium based on use of the media materials. NEOIMC is governed by an advisory committee made up of a member from a parochial school, a JVS, one county superintendent from each participating county, one city superintendent, and two local superintendents rotating every two years. Financial information can be obtained by contacting the treasurer at the Trumbull County Educational Service Center, 6600 Youngstown-Warren Road, Niles, Ohio 44446.

North East Ohio Special Education Regional Resource Center (NEO/SERRC)

NEO/SERRC is a special education service center which selects its own board, adopts its own budget and receives direct federal and state grants for its operation. NEO/SERRC is governed by a governing board of 39 members made up of representatives from 35 superintendents of the participating districts, one non-public school, one county board of mental retardation and two parents whose terms rotate every year. Information can be obtained by contacting the treasurer at the Mahoning County Educational Service Center, 1200 DeBartolo Place, Suite 105, Youngstown, Ohio 44512-7019.

**MCDONALD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

PUBLIC ENTITY RISK POOL

Ohio School Boards Association Workers' Compensation Group Rating Plan

The District participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Ohio School Boards Association Workers' Compensation Group Rating Plan (the "Plan") was established through the Ohio School Boards Association (OSBA) as a group purchasing pool.

B. Fund Accounting

The District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

GOVERNMENTAL FUNDS

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following is the District's major governmental fund:

General Fund - The general fund is used to account for all financial resources except those required to be accounted for in another fund. The general fund balance is available for any purpose provided it is expended or transferred according to the general laws of Ohio.

Other governmental funds of the District are used to account for (a) the accumulation of resources for, and payment of, general long-term debt principal, interest and related costs; (b) financial resources to be used for the acquisition, construction, or improvement of capital facilities; and (c) grants and other resources whose use is restricted to a particular purpose.

PROPRIETARY FUNDS

Proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector. The District has no proprietary funds.

FIDUCIARY FUNDS

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The District's only trust fund is a private-purpose trust which accounts for scholarship programs for students. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency fund accounts for student activities.

**MCDONALD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

C. Basis of Presentation and Measurement Focus

Government-wide Financial Statements - The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the District. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include amounts paid by the recipient of goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues of the District.

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the District are included on the statement of net assets.

Fund Financial Statements - Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column, and all nonmajor funds are aggregated into one column. Fiduciary funds are reported by fund type.

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The private-purpose trust fund is reported using the economic resources measurement focus. Agency funds do not report a measurement focus as they do not report operations.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds also use the accrual basis of accounting.

Revenues - Exchange and Non-exchange Transactions - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of fiscal year-end.

**MCDONALD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (see Note 6).

Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: property taxes available as an advance, interest, tuition, grants, student fees and rentals.

Unearned Revenue and Deferred Revenue - Unearned revenue and deferred revenue arise when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of June 30, 2007, but which were levied to finance fiscal year 2008 operations, and other revenues received in advance of the fiscal year for which they are intended to finance, have been recorded as unearned revenue. Grants and entitlements received before the eligibility requirements are met and delinquent property taxes due at June 30, 2007 are recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have been reported as deferred revenue.

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the Statement of Revenues, Expenditures and Changes in Fund Balances as an expenditure with a like amount reported as intergovernmental revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocation of cost, such as depreciation and amortization, are not recognized in governmental funds.

E. Budgets

The District is required by state statute to adopt an annual appropriated cash basis budget for all funds. The specific timetable for fiscal year 2007 is as follows:

1. Prior to January 15 of the preceding year, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The expressed purpose of this budget document is to reflect the need for existing (or increased) tax rates.

**MCDONALD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

2. By no later than January 20, the board-adopted budget is filed with the Trumbull County Budget Commission for tax rate determination.
3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The budget figures, as shown in the accompanying budgetary statements, reflect the amounts set forth in the original and final Amended Certificates issued for fiscal year 2007.
4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. State statute permits a temporary appropriation to be effective until no later than October 1 of each year. Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals.
5. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education.
6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions. All funds completed the year within the amount of their legally authorized cash basis appropriation.
7. Appropriations amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations, which either reallocated or increased the original appropriated amounts. All supplemental appropriations were legally enacted by the Board prior to June 30, 2007, however, none of these amendments were significant. The budget figures, as shown in the accompanying budgetary statements, reflect the original and final appropriation amounts including all amendments and modifications.
8. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the fund level.

F. Cash and Investments

To improve cash management, cash received by the District is pooled in a central bank account. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the basic financial statements.

During fiscal year 2007, investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio). Investments in STAR Ohio are reported at fair value, which is based on quoted market prices.

**MCDONALD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

The District has invested funds in STAR Ohio during fiscal 2007. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2007.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. By policy of the Board of Education, investment earnings are assigned to the general fund and the classroom facilities fund. Interest revenue credited to the general fund during fiscal year 2007 amounted to \$7,141, which includes \$4,787 assigned from other funds.

For presentation on the basic financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

An analysis of the District's investment account at year-end is provided in Note 4.

G. Inventory

On government-wide and fund financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used. Inventories are accounted for using the purchase method on the fund financial statements and using the consumption method on the government-wide statements.

On the fund financial statements, reported materials and supplies inventory is equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of net current assets.

Inventory consists of expendable supplies held for consumption, donated food and purchased food.

H. Capital Assets

Governmental capital assets are those assets generally related to governmental activities. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets, but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and deletions during the year. Donated capital assets are recorded at their fair market values as of the date received. During fiscal year 2007, the District maintained a capitalization threshold of \$5,000. Improvements are capitalized the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. The District does not possess infrastructure.

**MCDONALD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

All reported capital assets except land are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Land improvements	5 - 20 years
Buildings and improvements	20 - 50 years
Equipment and furniture	5 - 20 years
Vehicles	5 - 10 years

I. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund receivables/payables.” These amounts are eliminated in the governmental activities column on the statement of net assets. The District had no interfund balances at June 30, 2007.

J. Compensated Absences

Compensated absences of the District consist of vacation leave and severance liability to the extent that payments to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the District and the employee.

In accordance with the provisions of GASB Statement No. 16, “Accounting for Compensated Absences”, a liability for vacation leave is accrued if a) the employees’ rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2007, by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees with at least five years of service were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and severance payments has been calculated using pay rates in effect at June 30, 2007, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account “compensated absences payable” in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported.

**MCDONALD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

K. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, claims and judgments, compensated absences, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds are recognized as a liability on the fund financial statements when due.

L. Fund Balance Reserves

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, materials and supplies inventory, debt service, property tax revenue unavailable for appropriation, instructional materials, and school bus purchases. The reserve for property tax revenue unavailable for appropriation represents taxes recognized as revenue under GAAP, but not available for appropriation under state statute.

M. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The District applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

N. Prepayments

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These items are reported as assets on the balance sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed. The District does not report prepayments.

O. Estimates

The preparation of the basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the basic financial statements and accompanying notes. Actual results may differ from those estimates.

**MCDONALD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

P. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents set-aside to establish an instructional materials reserve and a capital maintenance reserve. These reserves are required by State statute. A schedule of statutory reserves is presented in Note 18.

Q. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the basic financial statements.

R. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2007.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

Deficit Fund Balances

Fund balances at June 30, 2007 included the following individual fund deficits:

	<u>Deficit</u>
<u>Major Governmental Fund</u>	
General	\$ 843,474
 <u>Nonmajor Governmental Funds</u>	
Food Service	13,092
Classroom Facilities Maintenance	1,845
Disadvantaged Pupil Impact Aid	406
Summer Intervention	144
Title I Disadvantaged Children	8,065
Title V Innovative Education Program	63
Improving Teacher Quality	777
Permanent Improvement	100,446

Except for the Food Service Fund, these funds complied with Ohio state law, which does not permit a cash basis deficit at year-end. The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. These deficit fund balances are the result of adjustments for accrued liabilities.

**MCDONALD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

NOTE 4 - DEPOSITS AND INVESTMENTS

State statutes classify monies held by the District into three categories.

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the District treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Board of Education has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim moneys are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

Interim monies to be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasury Asset Reserve of Ohio (STAR Ohio) investment pool;
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

**MCDONALD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Protection of District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

A. Cash on Hand

At fiscal year-end, the District had \$200 in undeposited cash on hand which is included on the financial statements of the District as part of "Equity in Pooled Cash and Cash Equivalents".

B. Deposits with Financial Institutions

At June 30, 2007, the carrying amount of all District deposits was \$315,580. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2007, \$200,000 of the District's bank balance of \$349,488 was covered by the Federal Deposit Insurance Corporation, while \$149,488 was exposed to custodial risk as discussed below.

Custodial credit risk is the risk that, in the event of bank failure, the District's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the District.

C. Investments

As of June 30, 2007, the District had the following investments and maturities:

<u>Investment type</u>	<u>Fair Market Value</u>	<u>Investment Maturity</u> 6 months or less
STAR Ohio	\$ 14,641	\$ 14,641

As of June 30, 2007, the weighted average maturity of investments is one day.

**MCDONALD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Interest Rate Risk: Interest rate risk arises because potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The Ohio Revised Code generally limits security purchases to those that mature within five years of the settlement date. The District's investment policy addresses interest rate risk by requiring the consideration of cash flow requirements and market conditions in determining the term of an investment, and limiting investment portfolio maturities to five years or less.

Credit Risk: Standard & Poor's has assigned STAR Ohio an AAAM money market rating. The District's investment policy does not specifically address credit risk beyond the adherence to all relevant sections of the Ohio Revised Code.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The District's investment policy does not specifically address custodial credit risk beyond the adherence to all relevant sections of the Ohio Revised Code.

Concentration of Credit Risk: The District's investment policy addresses concentration of credit risk by requiring investments to be diversified in order to reduce the risk of loss resulting from the over concentration of assets in a specific type of security, the erosion of market value, or by default. However, the District's investment policy does not place any limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2007:

<u>Investment type</u>	<u>Fair Market Value</u>	<u>% of Total</u>
STAR Ohio	\$ 14,641	100.00%

D. Reconciliation of Cash and Investments to the Statement of Net Assets

The following is a reconciliation of cash and investments as reported in the note disclosure above to cash and investments as reported on the statement of net assets as of June 30, 2007:

<u>Cash and Investments per Note Disclosure</u>	
Carrying amount of deposits	\$ 315,580
Investments	14,641
Cash on hand	<u>200</u>
Total	<u>\$ 330,421</u>
 <u>Cash and Investments per Statement of Net Assets</u>	
Governmental activities	\$ 288,506
Private-purpose trust funds	7,840
Agency funds	<u>34,075</u>
Total	<u>\$ 330,421</u>

**MCDONALD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

NOTE 5 - INTERFUND TRANSACTIONS

Due from and to other funds for the fiscal year ended June 30, 2007 consisted of the following, as reported in the fund financial statements:

<u>Due to General fund from:</u>	<u>Amount</u>
Nonmajor Governmental funds	\$ <u>6,856</u>
Total	<u>6,856</u>

Due from and to other funds are short-term interfund balances and are expected to be repaid within one year.

Due from and to other funds between governmental funds are eliminated on the government-wide financial statements.

NOTE 6 - PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis while the District fiscal year runs from July through June. First half tax collections are received by the District in the second half of the fiscal year. Second half tax distributions occur in the first half of the following fiscal year.

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2007 represents collections of calendar year 2006 taxes. Real property taxes received in calendar year 2007 were levied after April 1, 2006, on the assessed value listed as of January 1, 2006, the lien date. Assessed values for real property taxes are established by state law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, state statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2007 represents collections of calendar year 2006 taxes. Public utility real and tangible personal property taxes received in calendar year 2007 became a lien December 31, 2005, were levied after April 1, 2006 and are collected in 2007 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2007 (other than public utility property) represents the collection of 2007 taxes. Tangible personal property taxes received in calendar year 2007 were levied after April 1, 2006, on the value as of December 31, 2006. For 2006, tangible personal property was assessed at 18.75% for property including inventory. This percentage was reduced to 12.5% for 2007, 6.25% for 2008 and zero for 2009. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

**MCDONALD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 6 - PROPERTY TAXES - (Continued)

House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phases out the tax on tangible personal property of general businesses, telephone and telecommunications companies, and railroads. The tax on general business and railroad property will be eliminated by calendar year 2009, and the tax on telephone and telecommunications property will be eliminated by calendar year 2011. The tax is phased out by reducing the assessment rate on the property each year. The bill replaces the revenue lost by the District due to the phasing out of the tax. In calendar years 2006-2010, the District will be fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements will be phased out.

The District receives property taxes from Trumbull County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2007, are available to finance fiscal year 2007 operations. The amount available to be advanced can vary based on the date tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2007 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to unearned revenue.

The amounts available as an advance at June 30, 2007 were \$6,765 in the General fund, \$1,048 in the Emergency Levy special revenue fund (a nonmajor governmental fund), \$119 in the Classroom Facilities Maintenance special revenue fund (a nonmajor governmental fund), \$849 in the Bond Retirement debt service fund (a nonmajor governmental fund), and \$327 in the Permanent Improvement capital projects fund (a nonmajor governmental fund). These amounts have been recorded as revenue. The amounts available as an advance at June 30, 2006 were \$4,207 in the General fund.

On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue, while on a modified accrual basis the revenue has been deferred.

The assessed values upon which the fiscal year 2007 taxes were collected are:

	2006 Second Half Collections		2007 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 51,930,280	93.28	\$ 52,058,790	91.45
Public utility personal property	1,426,300	2.56	1,399,510	2.46
Tangible personal property	<u>2,313,689</u>	<u>4.16</u>	<u>3,467,560</u>	<u>6.09</u>
Total	<u>\$ 55,670,269</u>	<u>100.00</u>	<u>\$ 56,925,860</u>	<u>100.00</u>

Tax rate per \$1,000 of assessed valuation:

General operations	\$ 46.15	\$ 46.00
Bonded debt	3.10	3.00
Permanent improvement	2.00	2.00

**MCDONALD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 7 - RECEIVABLES

Receivables at June 30, 2007 consisted of taxes, accounts, and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the Statement of Net Assets follows:

Governmental Activities

Taxes		\$ 1,713,836	
Intergovernmental		<u>6,006</u>	
Total		<u>\$ 1,719,842</u>	

Receivables have been disaggregated on the face of the basic financial statements. All receivables are expected to be collected within the subsequent year.

NOTE 8 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2007 was as follows:

<u>Governmental Activities</u>	Balance <u>06/30/06</u>	Additions	Deletions	Balance <u>06/30/07</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 311,600	\$ -	\$ -	\$ 311,600
<i>Total capital assets, not being depreciated</i>	<u>311,600</u>	<u>-</u>	<u>-</u>	<u>311,600</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	524,008	-	-	524,008
Buildings and improvements	19,922,204	-	-	19,922,204
Equipment and furniture	507,834	47,449	-	555,283
Vehicles	231,318	-	-	231,318
<i>Total capital assets, being depreciated</i>	<u>21,185,364</u>	<u>47,449</u>	<u>-</u>	<u>21,232,813</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(120,007)	(24,674)	-	(144,681)
Buildings and improvements	(3,812,247)	(593,731)	-	(4,405,978)
Equipment and furniture	(246,996)	(74,788)	-	(321,784)
Vehicles	(212,652)	(7,467)	-	(220,119)
<i>Total accumulated depreciation</i>	<u>(4,391,902)</u>	<u>(700,660)</u>	<u>-</u>	<u>(5,092,562)</u>
Total capital assets, net	<u>\$ 17,105,062</u>	<u>\$ (653,211)</u>	<u>\$ -</u>	<u>\$ 16,451,851</u>

**MCDONALD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 8 - CAPITAL ASSETS - (Continued)

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 676,153
<u>Support Services:</u>	
Board of education	1,654
Administration	7,771
Operations and maintenance	2,318
Pupil transportation	7,467
Central	1,164
Extracurricular activities	1,035
Food service operations	3,098
Total depreciation expense	\$ 700,660

NOTE 9 - CAPITAL LEASE-LESSEE DISCLOSURE

On June 1, 2004, the District entered into a lease for copier equipment. This lease agreement meets the criteria of capital lease as defined by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the General Fund in the financial statements for the governmental funds. These expenditures are reported as function expenditures in the General Fund on the budgetary statements.

Capital assets consisting of equipment have been capitalized in the amount of \$93,771. This amount represents the present value of the minimum lease payments at the time of acquisition. Accumulated depreciation as of June 30, 2007 was \$56,262 and the book value was \$37,509. A corresponding liability is recorded in the government-wide financial statements. Principal payments in fiscal year 2007 totaled \$21,231. There are no interest payments, as this capital lease is an interest-free lease.

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2007:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2008	\$ 21,231
2009	8,847
Total minimum lease payments	30,078
Less: amount representing interest	-
Total	\$ 30,078

**MCDONALD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 10 - LEASE PURCHASE AGREEMENTS

- A.** On June 17, 2003, the District entered into a \$397,530 lease purchase agreement with the Second National Bank of Warren for the expansion of the gymnasium. The source of revenue to fund the principal and interest payments is derived from general operating revenues of the District. During fiscal year 2007, the District made \$82,065 in principal payments on the lease purchase agreement.

A liability in the amount of the present value of the minimum lease payments has been recorded in the governmental activities on the statement of net assets. Governmental capital assets have been capitalized as a component of buildings and improvements in the amount of \$397,530. This amount represents the costs of the project funded by the lease purchase agreement that were incurred prior to June 30, 2007.

The following is a schedule of the future lease payments required under the lease purchase agreement as of June 30, 2007.

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 84,798	\$ 1,514	\$ 86,312
Total	<u>\$ 84,798</u>	<u>\$ 1,514</u>	<u>\$ 86,312</u>

- B.** On June 30, 2004, the District entered into a \$91,343 lease purchase agreement with the IBM Credit Corporation for IBM computers. The source of revenue to fund the principal and interest payments is derived from general operating revenues of the District. During fiscal year 2007, the District made \$23,409 in principal payments on the lease purchase agreement.

A liability in the amount of the present value of the minimum lease payments has been recorded in the governmental activities on the statement of net assets. Governmental capital assets have been capitalized as a component of furniture and equipment in the amount of \$91,343. This amount represents the present value of the minimum lease payments at the inception of the lease purchase agreement.

The following is a schedule of the future lease payments required under the lease purchase agreement as of June 30, 2007.

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 24,991	\$ 897	\$ 25,888
Total	<u>\$ 24,991</u>	<u>\$ 897</u>	<u>\$ 25,888</u>

**MCDONALD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 11 - LONG-TERM OBLIGATIONS

- A. During fiscal year 2001, the District issued general obligation bonds to provide funds for renovations to the high school and to build a new elementary school (hereafter "Construction Project"). These bonds are general obligations of the District for which the full faith and credit of the District is pledged for repayment. Payments of principal and interest relating to this bond are recorded as an expenditure in the debt service fund. The source of payment is derived from a current 3.9 mill bonded debt tax levy.

These bonds represent the amount of the Construction Project that the District itself was required to finance, in accordance with the terms of a facilities grant from the Ohio School Facilities Commission (OSFC). OSFC will make quarterly disbursements to the District as the project is completed. As of June 30, 2007, the total cost of the Construction Project was \$18,659,977, of which OSFC paid \$14,468,469.

In conjunction with the 3.9 mills which support the bond issue, the District also passed in fiscal 2000 a 0.5 mill levy to ultimately fund the maintenance costs of the new facilities. Tax revenue from this levy has been reported in the special revenue funds.

This issue is comprised of both current interest bonds, par value \$2,000,000, and capital appreciation bonds, par value \$170,000. The interest rates on the current interest bonds range from 4.80% to 6.00%. The capital appreciation bonds mature on December 1, 2010 (effective yield to maturity of 37.32%) and December 1, 2011 (effective yield to maturity of 37.32%) at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The present value (as of issue date) at June 30, 2007 was \$4,000. A total of \$39,884 in accreted interest has been reported at June 30, 2007. The current interest bonds maturing on or after December 1, 2010 are subject to early redemption at the sole option of the District, at the following redemption prices, plus accrued interest:

<u>Redemption Dates</u>	<u>Redemption Price</u>
December 1, 2010 through November 30, 2011	102% of par
December 1, 2011 through November 30, 2012	101% of par
December 1, 2012 and thereafter	100% of par

Interest payments on the current interest bonds are due on June 1 and December 1 of each year. The final maturity stated in the issue is December 1, 2022.

During fiscal year 2006, the District refunded the callable portion (\$1,290,000) of the current interest bonds (see Note 10.B). The following is a schedule of activity for fiscal 2007 on the 2001 series general obligation bonds:

	Balance Outstanding <u>6/30/2006</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>6/30/2007</u>	Amount Due in <u>One Year</u>
<u>General obligation bonds</u>					
Current interest bonds	\$ 305,000	\$ -	\$ (70,000)	\$ 235,000	\$ 75,000
Capital appreciation bonds	4,000	-	-	4,000	-
Accreted interest	<u>27,166</u>	<u>12,718</u>	<u>-</u>	<u>39,884</u>	<u>-</u>
Total	<u>\$ 336,166</u>	<u>\$ 12,718</u>	<u>\$ (70,000)</u>	<u>\$ 278,884</u>	<u>\$ 75,000</u>

**MCDONALD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

The following is a summary of the future debt service requirements to maturity for the 2001 general obligation bonds:

Fiscal Year Ending June 30	Current Interest Bonds			Capital Appreciation Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2008	\$ 75,000	\$ 90,210	\$ 165,210	\$ -	\$ -	\$ -
2009	80,000	86,160	166,160	-	-	-
2010	80,000	81,800	161,800	-	-	-
2011	-	-	-	2,339	82,661	85,000
2012	-	-	-	1,661	83,339	85,000
Total	<u>\$ 235,000</u>	<u>\$ 258,170</u>	<u>\$ 493,170</u>	<u>\$ 4,000</u>	<u>\$ 166,000</u>	<u>\$ 170,000</u>

- B.** On May 31, 2006, the District issued general obligation bonds (Series 2006 Refunding Bonds) to advance refund a portion of the Series 2001 Current Interest General Obligation Bonds (principal \$1,290,000). The issuance proceeds of \$1,289,997 were used to purchase securities which were placed in an irrevocable trust to provide resources for all future debt service payments on the refunded debt. This refunded debt is considered defeased (in-substance) and accordingly, has been removed from the statement of net assets.

The refunding issue is comprised of both current interest bonds, par value \$1,205,000, and capital appreciation bonds, par value \$420,000. The capital appreciation bonds mature December 1, 2017, December 1, 2018, and December 1, 2019 at a redemption price equal to 100% of the principal, plus accreted interest to the redemption date. The present value (as of issue date) reported on the statement of net assets at June 30, 2007 was \$84,997. Total accreted interest of \$11,219 has been included in the statement of activities.

The reacquisition price exceeded the net carrying amount of the old debt by \$92,288. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is equal to the life of the new debt issued. This advance refunding was undertaken to reduce total debt service payments over the next nineteen years by \$102,044, resulting in an economic gain of \$76,809.

The following is a schedule of activity for fiscal 2007 on the 2006 series general obligation bonds:

General obligation bonds	Balance	Additions	Reductions	Balance	Amount
	Outstanding 6/30/2006			Outstanding 6/30/2007	Due in One Year
Current interest bonds	\$ 1,205,000	\$ -	\$ (10,000)	\$ 1,195,000	\$ 25,000
Capital appreciation bonds	84,997	-	-	84,997	-
Accreted interest	2,614	8,605	-	11,219	-
Total	<u>\$ 1,292,611</u>	<u>\$ 8,605</u>	<u>\$ (10,000)</u>	<u>\$ 1,291,216</u>	<u>\$ 25,000</u>

**MCDONALD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

The following is a summary of the future debt service requirements to maturity for the 2006 series refunding bonds:

Fiscal Year Ending June 30	Current Interest Bonds			Capital Appreciation Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2008	\$ 25,000	\$ 46,680	\$ 71,680	\$ -	\$ -	\$ -
2009	25,000	45,755	70,755	-	-	-
2010	25,000	44,830	69,830	-	-	-
2011	30,000	43,905	73,905	-	-	-
2012 - 2016	520,000	183,140	703,140	-	-	-
2017 - 2021	275,000	94,575	369,575	84,997	335,003	420,000
2022 - 2023	295,000	18,245	313,245	-	-	-
Total	<u>\$ 1,195,000</u>	<u>\$ 477,130</u>	<u>\$ 1,672,130</u>	<u>\$ 84,997</u>	<u>\$ 335,003</u>	<u>\$ 420,000</u>

C. During the year ended June 30, 2007, the following changes occurred in the long-term obligations.

<u>Governmental Activities</u>	Balance at 06/30/06	Increases	Decreases	Balance at 06/30/07	Amount Due in One Year
<u>General obligation bonds</u>					
Current interest bonds-series 2001	\$ 305,000	\$ -	\$ (70,000)	\$ 235,000	\$ 75,000
Capital appreciation bonds-series 2001	4,000	-	-	4,000	-
Accreted interest-series 2001	27,166	12,718	-	39,884	-
Current interest bonds-series 2006	1,205,000	-	(10,000)	1,195,000	25,000
Capital appreciation bonds-series 2006	84,997	-	-	84,997	-
Accreted interest-series 2006	2,614	8,605	-	11,219	-
Total general obligation bonds	<u>\$ 1,628,777</u>	<u>\$ 21,323</u>	<u>\$ (80,000)</u>	<u>\$ 1,570,100</u>	<u>\$ 100,000</u>
Lease purchase agreements	215,263	-	(105,474)	109,789	109,789
Capital lease obligation	51,309	-	(21,231)	30,078	21,231
Compensated absences	405,145	100,999	(61,023)	445,121	24,528
Retirement incentive	-	30,000	(10,000)	20,000	10,000
Total long-term obligations	<u>\$ 2,300,494</u>	<u>\$ 152,322</u>	<u>\$ (277,728)</u>	<u>\$ 2,175,088</u>	<u>\$ 265,548</u>
Unamortized premium on bonds				132,822	
Deferred loss on advance refunding				(86,229)	
Total governmental activities				<u>\$ 2,221,681</u>	

Principal and interest payments on the general obligation bonds are paid out of the Bond Retirement debt service fund. Principal and interest payments on the lease purchase agreements are paid out of the general fund. Compensated absences are paid out of the fund from which the employee is paid, primarily the general fund.

**MCDONALD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

D. Legal Debt Margins

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The code additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1% of the property valuation of the District.

The assessed valuation used in determining the District's legal debt margins has been modified by House Bill 530, which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District's legal debt margin calculations excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations.

The effects of these debt limitations at June 30, 2007 are a legal voted debt margin of \$3,200,799 (including available funds of \$34,505), a legal unvoted debt margin of \$52,059, and a legal energy conservation debt margin of \$468,529.

NOTE 12 - NOTES PAYABLE

During fiscal year 2007, the District issued a tax anticipation note for \$150,000. This note was issued on December 18, 2006, matures on December 18, 2007, and carries an interest rate of 5.00%. The tax anticipation note was issued in anticipation of the levy and collection of taxes for the purpose of providing funds for permanent improvements of the District. This note is reported as a liability in the Permanent Improvement capital projects fund (a nonmajor governmental fund) on the governmental funds balance sheet and in governmental activities on the statement of net assets.

During fiscal year 2007, the District issued a tax revenue note for \$250,000. This note was issued on June 25, 2007, matures on March 31, 2008, and carries an interest rate of 5.61%. The tax revenue note was issued in anticipation of the collection of current property tax revenues for the purpose of paying current expenses for the general operations of the District. This note is reported as a liability in the General fund on the governmental funds balance sheet and in governmental activities on the statement of net assets.

NOTE 13 - RISK MANAGEMENT

A. Comprehensive

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District maintains comprehensive commercial insurance coverage for real property, building contents, vehicles, and boilers.

Vehicle policies include liability coverage for bodily injury and property damage. The liability limits are \$1,000,000 for each accident and uninsured motorist of \$1,000,000 for each accident with a collision deductible of \$250.

**MCDONALD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

NOTE 13 - RISK MANAGEMENT - (Continued)

Real property and contents are fully insured. Limits of insurance on real property and equipment are \$23,721,209 with a deductible of \$1,000.

The District liability policy has a limit of \$1,000,000 for each occurrence and \$3,000,000 aggregate.

Settled claims have not exceeded commercial coverage in any of the past three years. There has been no significant reduction in coverage from fiscal year 2006.

B. Health Self Insurance

The District has joined together with other school districts in the state to form the Trumbull County School Insurance Consortium Association, a public entity risk pool currently operating as a common risk management and insurance program for 16 member school districts in Trumbull County. The District pays an annual premium to Trumbull County School Insurance Consortium Association for its insurance coverage. It is intended that the Trumbull County School Insurance Consortium Association will be self-supporting through member premiums. The monthly premium includes a specific and aggregate stoploss premium paid to General American Insurance. The specific individual stoploss is \$100,000 per year. The aggregate stoploss is 105% of yearly anticipated claims.

The District provides health, dental, vision and life insurance coverage for employees. The health and dental insurance coverage is administered by Core Source, a third party administrator. Vision Service Plan administers the vision coverage. Medical Life Insurance Company provides the life insurance coverage. The District pays the insurance premiums, as a fringe benefit for the employees.

Settled claims resulting from these risks have not exceeded the commercial insurance coverage in any of the past three fiscal years.

C. Workers' Compensation

The District participates in the Sheakley Uniserve Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (see Note 2). The GRP's business and affairs are conducted by a three member board of directors consisting of the President, the President-Elect and the Immediate Past President of the Ohio School Boards Association. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the state based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP. Each year, the District pays an enrollment fee to the GRP to cover the costs of administering the program.

**MCDONALD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 14 - PENSION PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (800) 878-5853. It is also posted on SERS' website, www.ohsers.org, under Forms and Publications.

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2007, 10.68 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The District's required contribution for pension obligations to SERS for fiscal years ended 2007, 2006, and 2005 were \$67,530, \$66,336, and \$80,908; 41.48 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005. \$39,519 represents the unpaid contribution for fiscal year 2007.

B. State Teachers Retirement System of Ohio

The District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371, or by calling (614) 227-4090, or by visiting the STRS Ohio website at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

**MCDONALD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

NOTE 14 - PENSION PLANS - (Continued)

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2007, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal years 2006 and 2005, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contributions for fund pension obligations to STRS Ohio for the fiscal years ended June 30, 2007, 2006, and 2005 were \$432,890, \$408,250, and \$414,280; 83.52 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005. \$71,337 represents the unpaid contribution for fiscal year 2007 and is recorded as a liability within the respective funds. Contributions to the DC and Combined Plans for fiscal year 2007 were \$5,219 made by the District and \$4,970 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Employees Retirement Systems/State Teachers Retirement System of Ohio. As of June 30, 2007, certain members of the Board of Education have elected Social Security. The District's liability is 6.2% of wages paid.

NOTE 15 - POSTEMPLOYMENT BENEFITS

The District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio (STRS Ohio), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

STRS Ohio retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2007, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$33,299 for fiscal year 2007.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006 (the latest information available), the balance in the Health Care Stabilization Fund was \$3.5 billion. For the fiscal year ended June 30, 2006 (the latest information available), net health care costs paid by STRS Ohio were \$282.743 million and STRS Ohio had 119,184 eligible benefit recipients.

**MCDONALD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

NOTE 15 - POSTEMPLOYMENT BENEFITS - (Continued)

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. Premiums may be reduced for retirees whose household income falls below the poverty level.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll, a decrease of .10 percent from fiscal year 2006. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2007, the minimum pay was established at \$35,800. Total surcharge is capped at 2 percent of each employer's SERS salaries. For the 2007 fiscal year, District paid \$30,376 to fund health care benefits, including the surcharge.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2006 (the latest information available) were \$158.751 million. At June 30, 2006 (the latest information available), SERS had net assets available for payment of health care benefits of \$295.6 million. On the basis of actuarial projections, the allocated contributions will be insufficient in the long term, to provide for a health care reserve equal to at least 150 percent of estimated annual net claim costs. At June 30, 2006 (the latest information available), SERS had 59,492 participants currently receiving health care benefits.

NOTE 16 - BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts and disbursements.

The Statement of Revenue, Expenditures, and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to a reservation of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis).

**MCDONALD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 16 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the general fund is as follows:

Net Change in Fund Balance

	<u>General Fund</u>
Budget basis	\$ 158,866
Net adjustment for revenue accruals	10,242
Net adjustment for expenditure accruals	(112,361)
Net adjustment for other financing sources/uses	(257,684)
Adjustment for encumbrances	<u>3,166</u>
GAAP basis	<u>\$ (197,771)</u>

NOTE 17 - CONTINGENCIES

A. Grants

The District receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the District. However in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the District.

B. Litigation

The District is involved in no material litigation as either plaintiff or defendant.

NOTE 18 - STATUTORY RESERVES

The District is required by state law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2007, the reserve activity was as follows:

	<u>Instructional Materials</u>	<u>Capital Maintenance</u>
Set-aside balance as of June 30, 2006	\$ (31,731)	\$ -
Current year set-aside requirement	140,018	140,018
Current year qualifying expenditures	<u>(75,004)</u>	<u>(336,320)</u>
Total	<u>\$ 33,283</u>	<u>\$ (196,302)</u>
Balance carried forward to FY2007	<u>\$ 33,283</u>	<u>\$ -</u>

**MCDONALD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

NOTE 18 - STATUTORY RESERVES - (Continued)

The District had qualifying expenditures during the year that reduced the capital maintenance set-aside amount below zero. The District cannot carry forward this excess amount in order to reduce the set-aside requirements of future years.

In addition to the above statutory reserves, the District also received monies restricted for school bus purchases.

A schedule of restricted assets at June 30, 2007 follows:

Amount restricted for instructional materials	\$ 33,283
Amount restricted for school bus purchases	<u>991</u>
Total	<u>\$ 34,274</u>

NOTE 19 – FINANCIAL DISTRESS

On October 15, 2009, the Auditor of State declared the District in fiscal emergency.

Many factors have contributed to the District’s current financial condition including significant reductions in State revenues, Statewide reductions in the funding formula as a result of the economic crisis, phase-out of the tangible personal property tax, increasing health care costs and building maintenance costs, and a significant decline in growth on the local level. Also, the District has incurred significant debt as the result of an escalation in borrowing to meet operational expenses beginning in fiscal year 2007.

The District has passed an emergency operating levy which is expected to generate \$260,000 annually.

NOTE 20 – SUBSEQUENT EVENTS

A. Notes Payable

On August 12, 2009, the District issued \$600,000 in tax revenue notes, at an interest rate of 5.00%, in anticipation of the collection of current property tax revenues for the purpose of paying current expenses for the general operations of the District.

B. Treasurer

Effective September 28, 2009, Brian Stidham became the Treasurer of the District.

C. Superintendent

The Financial Planning and Supervision Commission and the Board of Education have accepted the resignation of the Superintendent, Michael Wasser, effective July 31, 2010.



Mary Taylor, CPA

Auditor of State

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

McDonald Local School District
Trumbull County
600 Iowa Avenue
McDonald, Ohio 44437

To the Board of Education:

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of McDonald Local School District, Trumbull County, (the District) as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements and have issued our report thereon dated May 21, 2010, wherein we noted the District is experiencing financial difficulties and was declared to be in fiscal emergency on October 15, 2009 under criteria established by Ohio Revised Code Section 3316.03(B)(5). We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Governmental Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinions on the financial statements, but not to opine on the effectiveness of the District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the District's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the District's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

We noted certain matters that we reported to the District's management in a separate letter dated May 21, 2010.

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Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We did note certain noncompliance or other matters that we reported to the District's management in a separate letter dated May 21, 2010.

We intend this report solely for the information and use of the Board of Education and, management. We intend it for no one other than these specified parties.

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

May 21, 2010



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
JULY 13, 2010**