



Dave Yost • Auditor of State

**MCDONALD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY
JUNE 30, 2017**

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TRUMBULL COUNTY
JUNE 30, 2017

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

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

To the Board of Education:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each 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, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of McDonald Local School District, Trumbull County, Ohio, as of June 30, 2017, and the respective changes in financial position thereof and the budgetary comparison for the General Fund thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, and schedules of net pension liabilities and pension contributions listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 20, 2018, 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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Dave Yost
Auditor of State
Columbus, Ohio

March 20, 2018

McDonald Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
Unaudited

As management of the McDonald Local School District (the School District), we offer readers of the School District's financial statements this narrative and analysis of the financial activities of the School District for the fiscal year ended June 30, 2017. We encourage readers to consider the information presented here in conjunction with the financial statements and notes to the basic financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

- In total, net position increased due to an increase in charges for services and sales and grants not restricted. The increase in intergovernmental revenues is a result of the School District continuing to seek out additional sources of funding to ensure that the programs provided by the School District continue.
- Capital asset additions included the boys' locker room, various pieces of equipment and completed construction in progress of the board of education parking lot and the gym bleachers.
- Outstanding long-term obligations increased during fiscal year 2017 due to increases in the net pension liability and compensated absences, which was offset by the School District's annual debt payments.
- The School District's assessed valuation showed an increase in fiscal year 2017.
- The School District complies with GASB 68 and GASB 71, which establish standards for measuring and recognizing pension liabilities, deferred outflows/inflows of resources and expense/expenditure.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the School District's basic financial statements. The School District's basic financial statements are comprised of three components: (1) government-wide statements, (2) fund financial statements, and (3) notes to the basic financial statements.

Government-wide Financial Statements The government-wide financial statements are designed to provide the reader with a broad overview of the School District's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the School District's assets and deferred outflows of resources and liabilities and deferred inflows of resources, with the difference between the four reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the School District is improving or deteriorating.

The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

McDonald Local School District
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Unaudited

The government-wide financial statement distinguishes functions of the School District that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from those that are primarily supported through user charges (*business-type activities*). The School District has no business-type activities. The governmental activities of the School District include instruction, support services, extracurricular activities, operation of non-instructional services and interest and fiscal charges.

Fund Financial Statements A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The School District, like the State and local governments, uses fund accounting to ensure and demonstrate compliance with financial-related legal requirements. These fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the general fund and the district replacement capital projects fund. All of the funds of the School District can be divided into two categories: governmental and fiduciary.

Governmental Funds Most of the School District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual*, which measures cash and all other *financial assets* that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the School District's general governmental 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 difference) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is reconciled in the financial statements.

Fiduciary Fund A fiduciary fund is used to account for resources held for the benefit of parties outside the government. The fiduciary fund is not reflected in the government-wide financial statements because the resources of this fund are not available to support the School District's own programs. These funds use the accrual basis of accounting.

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.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. Table 1 provides a comparison of the School District's Net Position for 2017 compared to 2016.

McDonald Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
Unaudited

Table 1
 Net Position
 Governmental Activities

	2017	2016	Change
Assets			
Current and Other Assets	\$9,999,628	\$8,538,343	\$1,461,285
Capital Assets, Net	10,962,427	11,423,698	(461,271)
<i>Total Assets</i>	<u>20,962,055</u>	<u>19,962,041</u>	<u>1,000,014</u>
Deferred Outflows of Resources			
Deferred Charge on Refunding	30,298	35,891	(5,593)
Pension	2,365,405	1,106,116	1,259,289
<i>Total Deferred Outflows of Resources</i>	<u>2,395,703</u>	<u>1,142,007</u>	<u>1,253,696</u>
Liabilities			
Current Liabilities	1,404,924	1,257,110	(147,814)
Long-Term Liabilities			
Due Within One Year	162,710	155,929	(6,781)
Due in More Than One Year			
Net Pension Liability	11,966,717	9,734,867	(2,231,850)
Other Amounts	1,070,773	1,119,545	48,772
<i>Total Liabilities</i>	<u>14,605,124</u>	<u>12,267,451</u>	<u>(2,337,673)</u>
Deferred Inflows of Resources			
Property Taxes	1,736,602	1,848,764	112,162
Pension	81,756	673,493	591,737
<i>Total Deferred Inflows of Resources</i>	<u>1,818,358</u>	<u>2,522,257</u>	<u>703,899</u>
Net Position			
Net Investment in Capital Assets	10,426,057	10,749,306	(323,249)
Restricted for:			
Capital Projects	156,447	128,972	27,475
Debt Service	139,813	146,371	(6,558)
Unclaimed Monies	21,725	21,725	0
Other Purposes	192,059	263,573	(71,514)
Unrestricted (Deficit)	(4,001,825)	(4,995,607)	993,782
<i>Total Net Position</i>	<u>\$6,934,276</u>	<u>\$6,314,340</u>	<u>\$619,936</u>

The net pension liability (NPL) is the largest single liability reported by the School District at June 30, 2017 and is reported pursuant to GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27." For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the School District's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability*.

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GASB 68 takes an earnings approach to pension accounting; however, the nature of Ohio's statewide pension systems and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

GASB 68 requires the net pension liability to equal the School District's proportionate share of each plan's collective:

1. Present value of estimated future pension benefits attributable to active and inactive employees' past service
- 2 Minus plan assets available to pay these benefits

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the School District is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required pension payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability is satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68, the School District's statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan's *change* in net pension liability not accounted for as deferred inflows/outflows.

Current assets increased due mainly to an increase in cash and cash equivalents. Due to the careful planning and budgeting, the School District's administration has been able to build the available cash. The decrease in capital assets was due to an additional year of depreciation outpacing current year additions.

Long-term liabilities increased during fiscal year 2017 due mainly to an increase in the net pension liability. Current liabilities increased due to increased accrued wages and foundation adjustments payable. These increases were slightly offset by the School District's annual debt payments on general obligation debt.

In order to further understand what makes up the changes in net position for the current year, the following table gives readers further details regarding the results of activities for 2017 and 2016.

McDonald Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
Unaudited

Table 2
Change in Net Position
Governmental Activities

	2017	2016	Change
Program Revenues			
Charges for Services and Sales	\$1,538,116	\$1,410,610	\$127,506
Operating Grants, Contributions and Interest	888,456	980,644	(92,188)
Capital Grants	13,234	13,748	(514)
<i>Total Program Revenues</i>	<u>2,439,806</u>	<u>2,405,002</u>	<u>34,804</u>
General Revenues			
Property Taxes	1,799,753	1,825,528	(25,775)
Grants and Entitlements	5,341,931	5,212,349	129,582
Investment Earnings	50,476	12,967	37,509
Miscellaneous	1,160	690	470
<i>Total General Revenues</i>	<u>7,193,320</u>	<u>7,051,534</u>	<u>141,786</u>
<i>Total Revenues</i>	<u>9,633,126</u>	<u>9,456,536</u>	<u>176,590</u>
Program Expenses			
Instruction:			
Regular	4,873,824	4,312,200	(561,624)
Special	1,207,772	1,055,896	(151,876)
Vocational	71,949	32,615	(39,334)
Support Services			
Pupils	255,730	183,360	(72,370)
Instructional Staff	8,059	16,731	8,672
Board of Education	66,733	35,157	(31,576)
Administration	672,354	559,707	(112,647)
Fiscal	210,911	171,316	(39,595)
Operation and Maintenance of Plant	922,557	699,299	(223,258)
Pupil Transportation	191,285	119,194	(72,091)
Central	40,611	57,084	16,473
Operation of Non-Instructional Services	28,769	50,402	21,633
Operation of Food Service	118,712	119,140	428
Extracurricular Activities	282,143	264,463	(17,680)
Intergovernmental	0	533,108	533,108
Interest and Fiscal Charges	61,781	59,502	(2,279)
<i>Total Program Expenses</i>	<u>9,013,190</u>	<u>8,269,174</u>	<u>(744,016)</u>
<i>Change in Net Position</i>	619,936	1,187,362	(567,426)
Net Position Beginning of Year	<u>6,314,340</u>	<u>5,126,978</u>	<u>1,187,362</u>
Net Position End of Year	<u>\$6,934,276</u>	<u>\$6,314,340</u>	<u>\$619,936</u>

The School District relies heavily upon property taxes and the State School Foundation Program to support its operations. The School District also actively solicits and receives additional grant and entitlement funds to help offset operating costs.

McDonald Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
Unaudited

Program expenses increased mainly due to an increase in pension expenses related to the net pension liability. The decrease in intergovernmental expenses is due to the OSFC payment that is still outstanding as of fiscal year end.

The *statement of activities* shows the cost of program services and charges for services and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services for 2017 compared to 2016.

Table 3
 Total and Net Cost of Program Services
 Governmental Activities

	2017		2016	
	Total Cost of Service	Net Cost of Service	Total Cost of Service	Net Cost of Service
Instruction:				
Regular	\$4,873,824	\$3,728,834	\$4,312,200	\$3,068,456
Special	1,207,772	255,344	1,055,896	232,915
Vocational	71,949	49,272	32,615	31,211
Support Services:				
Pupils	255,730	230,239	183,360	166,746
Instructional Staff	8,059	8,059	16,731	16,731
Board of Education	66,733	66,733	35,157	35,157
Administration	672,354	668,130	559,707	552,249
Fiscal	210,911	210,911	171,316	171,316
Operation and Maintenance of Plant	922,557	863,157	699,299	639,806
Pupil Transportation	191,285	191,285	119,194	119,194
Central	40,611	37,011	57,084	53,484
Operation of Non-Instructional Services	28,769	28,769	50,402	50,402
Operation of Food Service	118,712	4,861	119,140	(1,093)
Extracurricular Activities	282,143	168,998	264,463	134,988
Interest and Fiscal Charges	61,781	61,781	59,502	59,502
Total	<u>\$9,013,190</u>	<u>\$6,573,384</u>	<u>\$7,736,066</u>	<u>\$5,331,064</u>

The dependence upon general revenues for governmental activities is apparent from Table 3. The majority of instructional activities are supported through taxes and other general revenues.

Financial Analysis of the Government's Funds

Governmental Funds Information about the School District's major funds begins with the balance sheet. These funds are accounted for using the modified accrual basis of accounting. The general fund had a decrease in fund balance due to transfers made to the district replacement capital projects fund. The district replacement capital projects fund had an increase in fund balance due to transfers from the general fund to pay for the replacement of obsolete items. Overall, the School District's revenues continue to outpace expenditures through careful budget restraints set in place by the School District.

McDonald Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
Unaudited

General Fund Budgeting Highlights

The School 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 fund to be budgeted is the main operating fund of the School District, the general fund. During the course of fiscal year 2017, the School District amended its general fund budget numerous times. The School District uses site-based budgeting and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management.

For the general fund, the final budget basis revenue estimate was slightly lower than the original budget estimate. The change was mainly attributed to a decrease in intergovernmental revenues as a better picture of actual receipts became apparent.

The final budget appropriations were higher than the original budget appropriations of the general fund. The change was attributed to increases in estimates for instructional activities and support services as a better picture of actual expenditures became apparent.

Capital Assets and Long-term Liabilities

Capital Assets

Table 4 shows fiscal 2017 values compared to fiscal 2016.

Table 4
 Capital Assets at June 30
 Governmental Activities

	2017	2016
Land	\$311,600	\$311,600
Construction in Progress	0	197,913
Land Improvements	471,892	316,630
Buildings and Improvements	9,794,939	10,293,070
Furniture and Fixtures	248,557	138,464
Vehicles	135,439	166,021
Total Capital Assets	\$10,962,427	\$11,423,698

The decrease in capital assets was due to the current year depreciation outpacing additional purchases. In fiscal year 2017, the School District's capital asset additions included various pieces of equipment, the boys' locker room and completion of construction in progress of the board of education parking lot and gym bleachers. For more information about the School District's capital assets, see Note 8 to the basic financial statements.

Long-Term Liabilities

Table 5 below summarizes the School District's long-term outstanding obligations.

McDonald Local School District
Management's Discussion and Analysis
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Unaudited

Table 5
Outstanding Long-term Obligations at June 30
Governmental Activities

	2017	2016
2006 School Improvement Bonds	\$829,889	\$931,476
Capital Leases	41,093	50,166
Compensated Absences	362,501	293,832
Net Pension Liability	11,966,717	9,734,867
Total	\$13,200,200	\$11,010,341

The 2006 school improvement bonds were issued to refund a portion of the 2001 school improvement bonds to take advantage of lower interest rates. The bonds are paid out of the general obligation bond retirement fund. The 2006 school improvement bonds mature in fiscal year 2023. See Note 9 to the basic financial statements for additional information.

School District Outlook

Currently, the School District is financially strong and is forecast to remain strong over the next five years, however, the financial future of the School District will continue to face challenges. These challenges largely stem from legislative policies involving local property taxes, open enrollment and State foundation funding efforts.

The local challenges will continue to exist, as the School District must rely heavily on property taxes and open enrollment to fund its operations. The School District has precious little tax base and it is mostly residential. Open enrollment is a very precarious avenue for revenue as it barely brings enough revenue per pupil to provide the very basic services and can only work in a low cost environment such as exists here and a few other places in the State. With only six thousand dollars currently offered for an open enrollment student, only those districts spending six thousand or less per student can benefit from the current open enrollment policies. As the School District works toward improving outcome for students, per pupil spending is likely to increase. State revenue per open enrollment student needs to increase substantially or district open enrollment policies may need to be adjusted.

State level challenges continue to evolve as the State of Ohio determines the outcome of the Ohio Supreme Court case dealing with unconstitutionality of the State's educational funding system. This decades old problem continues as each State budget seems to contain a new "fix" for our unconstitutional system. Recent versions of the State foundation have helped the School District build a financial defense against possible State foundation downturns such as those striking the School District only a few short years ago. At that time the School District was in a weakened financial position and was devastated. The continuing confusion caused by four different formulae in 6 years can be an obstacle to the School District's efforts to explain and understand the local school budget. Further complications in long term understanding and forecasting is the State's inability to provide revenue guidance beyond the two year budget. The budget also is often released late in the cycle further impeding the forecasting process. In addition, the State continues to place unfunded mandates on schools such as the third grade guarantee and on-line testing.

McDonald Local School District
Management's Discussion and Analysis
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Due to the unsettled issues in school funding, management is required to plan carefully and prudently to provide the resources to meet student needs over the next several years. In conclusion, it has been noted that the School District's system of budgeting and internal controls is well regarded. All of the School District's financial abilities will be needed to meet the challenges of the future.

Contacting the School District's Financial Management

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

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McDonald Local School District

Statement of Net Position

June 30, 2017

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	\$7,990,997
Intergovernmental Receivable	44,518
Prepaid Items	17,754
Inventory Held for Resale	834
Property Taxes Receivable	1,945,525
Nondepreciable Capital Assets	311,600
Depreciable Capital Assets, Net	<u>10,650,827</u>
<i>Total Assets</i>	<u>20,962,055</u>
Deferred Outflows of Resources	
Deferred Charge on Refunding	30,298
Pension	<u>2,365,405</u>
<i>Total Deferred Outflows of Resources</i>	<u>2,395,703</u>
Liabilities	
Accounts Payable	22,932
Contracts Payable	25,327
Accrued Wages and Benefits	618,973
Intergovernmental Payable	736,206
Accrued Interest Payable	1,486
Long-Term Liabilities:	
Due Within One Year	162,710
Due In More Than One Year	
Net Pension Liability (See Note 16)	11,966,717
Other Amounts	<u>1,070,773</u>
<i>Total Liabilities</i>	<u>14,605,124</u>
Deferred Inflows of Resources	
Property Taxes	1,736,602
Pension	<u>81,756</u>
<i>Total Deferred Outflows of Resources</i>	<u>1,818,358</u>
Net Position	
Net Investment in Capital Assets	10,426,057
Restricted for:	
Capital Projects	156,447
Debt Service	139,813
Unclaimed Monies	21,725
Other Purposes	192,059
Unrestricted (Deficit)	<u>(4,001,825)</u>
<i>Total Net Position</i>	<u><u>\$6,934,276</u></u>

See accompanying notes to the basic financial statements

McDonald Local School District
Statement of Activities
For the Fiscal Year Ended June 30, 2017

	Program Revenues			Capital Grants	Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services and Sales	Operating Grants Contributions and Interest		
Governmental Activities					
Instruction:					
Regular	\$4,873,824	\$1,126,083	\$18,907	\$0	(\$3,728,834)
Special	1,207,772	223,507	728,921	0	(255,344)
Vocational	71,949	19,128	3,549	0	(49,272)
Support Services:					
Pupils	255,730	0	25,491	0	(230,239)
Instructional Staff	8,059	0	0	0	(8,059)
Board of Education	66,733	0	0	0	(66,733)
Administration	672,354	4,224	0	0	(668,130)
Fiscal	210,911	0	0	0	(210,911)
Operation and Maintenance of Plant	922,557	16,750	29,416	13,234	(863,157)
Pupil Transportation	191,285	0	0	0	(191,285)
Central	40,611	0	3,600	0	(37,011)
Operation of Non-Instructional Services	28,769	0	0	0	(28,769)
Operation of Food Service	118,712	35,327	78,524	0	(4,861)
Extracurricular Activities	282,143	113,097	48	0	(168,998)
Interest and Fiscal Charges	61,781	0	0	0	(61,781)
Totals	\$9,013,190	\$1,538,116	\$888,456	\$13,234	(6,573,384)
General Revenues					
Property Taxes Levied for:					
General Purposes					1,440,205
Debt Service					126,856
Capital Outlay					213,643
Classroom Facilities Maintenance					19,049
Grants and Entitlements not Restricted to Specific Programs					5,341,931
Investment Earnings					50,476
Miscellaneous					1,160
Total General Revenues					7,193,320
Change in Net Position					619,936
Net Position Beginning of Year					6,314,340
Net Position End of Year					\$6,934,276

See accompanying notes to the basic financial statements

McDonald Local School District

Balance Sheet

Governmental Funds

June 30, 2017

	<u>General</u>	<u>District Replacement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Equity in Pooled Cash and Cash Equivalents	\$4,600,127	\$2,890,689	\$478,456	\$7,969,272
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	21,725	0	0	21,725
Intergovernmental Receivable	44,207	0	311	44,518
Inventory Held for Resale	0	0	834	834
Property Taxes Receivable	1,555,014	0	390,511	1,945,525
Prepaid Items	17,504	0	250	17,754
<i>Total Assets</i>	<u>\$6,238,577</u>	<u>\$2,890,689</u>	<u>\$870,362</u>	<u>\$9,999,628</u>
Liabilities				
Accounts Payable	\$19,086	\$0	\$3,846	\$22,932
Contracts Payable	19,677	5,650	0	25,327
Accrued Wages and Benefits	595,335	0	23,638	618,973
Intergovernmental Payable	731,156	0	5,050	736,206
<i>Total Liabilities</i>	<u>1,365,254</u>	<u>5,650</u>	<u>32,534</u>	<u>1,403,438</u>
Deferred Inflows of Resources				
Property Taxes	1,387,079	0	349,523	1,736,602
Unavailable Revenue	163,438	0	39,890	203,328
<i>Total Deferred Inflows of Resources</i>	<u>1,550,517</u>	<u>0</u>	<u>389,413</u>	<u>1,939,930</u>
Fund Balances				
Nonspendable	39,229	0	250	39,479
Restricted	0	0	452,262	452,262
Committed	0	2,885,039	0	2,885,039
Assigned	21,737	0	0	21,737
Unassigned (Deficit)	3,261,840	0	(4,097)	3,257,743
<i>Total Fund Balances</i>	<u>3,322,806</u>	<u>2,885,039</u>	<u>448,415</u>	<u>6,656,260</u>
<i>Total Liabilities, Deferred Inflows of Resources and Fund Balances</i>	<u>\$6,238,577</u>	<u>\$2,890,689</u>	<u>\$870,362</u>	<u>\$9,999,628</u>

See accompanying notes to the basic financial statements

McDonald Local School District
*Reconciliation of Total Governmental Fund Balances to
 Net Position of Governmental Activities
 June 30, 2017*

Total Governmental Fund Balances	\$6,656,260
 <i>Amounts reported for governmental activities in the statement of net position are different because</i>	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	10,962,427
Other long-term assets, such as delinquent property taxes, are not available to pay for current-period expenditures and therefore are reported as unavailable revenue in the funds.	203,328
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	(1,486)
The net pension liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in governmental funds.	
Deferred Outflows - Pension	2,365,405
Deferred Inflows - Pension	(81,756)
Net Pension Liability	<u>(11,966,717)</u>
Total	(9,683,068)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	
General Obligation Bonds	(829,889)
Capital Leases	(41,093)
Compensated Absences	(362,501)
Deferred Charge on Refunding	<u>30,298</u>
Total	<u>(1,203,185)</u>
<i>Net Position of Governmental Activities</i>	<u><u>\$6,934,276</u></u>

See accompanying notes to the basic financial statements

McDonald Local School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2017

	General	District Replacement	Other Governmental Funds	Total Governmental Funds
Revenues				
Property Taxes	\$1,429,433	\$0	\$355,695	\$1,785,128
Intergovernmental	5,690,854	0	543,849	6,234,703
Interest	50,476	0	0	50,476
Tuition and Fees	1,368,718	0	0	1,368,718
Extracurricular Activities	4,224	0	83,659	87,883
Contributions and Donations	0	0	25,539	25,539
Charges for Services	29,438	0	35,327	64,765
Rentals	16,750	0	0	16,750
Miscellaneous	431	0	729	1,160
<i>Total Revenues</i>	<u>8,590,324</u>	<u>0</u>	<u>1,044,798</u>	<u>9,635,122</u>
Expenditures				
Current:				
Instruction:				
Regular	3,951,514	0	17,027	3,968,541
Special	789,038	0	374,336	1,163,374
Vocational	67,734	0	0	67,734
Support Services:				
Pupils	220,802	0	21,000	241,802
Instructional Staff	8,059	0	0	8,059
Board of Education	66,733	0	0	66,733
Administration	585,207	0	7,512	592,719
Fiscal	187,629	0	2,605	190,234
Operation and Maintenance of Plant	722,212	0	119,805	842,017
Pupil Transportation	158,562	0	438	159,000
Central	37,011	0	3,600	40,611
Operation of Non-Instructional Services	27,530	0	1,239	28,769
Operation of Food Service	0	0	115,429	115,429
Extracurricular Activities	183,343	0	97,917	281,260
Capital Outlay	0	74,961	199,402	274,363
Debt Service:				
Principal Retirement	9,073	0	135,000	144,073
Interest and Fiscal Charges	2,690	0	20,535	23,225
<i>Total Expenditures</i>	<u>7,017,137</u>	<u>74,961</u>	<u>1,115,845</u>	<u>8,207,943</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>1,573,187</u>	<u>(74,961)</u>	<u>(71,047)</u>	<u>1,427,179</u>
Other Financing Sources (Uses)				
Transfers In	0	2,780,000	19,000	2,799,000
Transfers Out	(2,799,000)	0	0	(2,799,000)
<i>Total Other Financing Sources (Uses)</i>	<u>(2,799,000)</u>	<u>2,780,000</u>	<u>19,000</u>	<u>0</u>
<i>Net Change in Fund Balances</i>	(1,225,813)	2,705,039	(52,047)	1,427,179
<i>Fund Balances Beginning of Year</i>	4,548,619	180,000	500,462	5,229,081
<i>Fund Balances End of Year</i>	<u>\$3,322,806</u>	<u>\$2,885,039</u>	<u>\$448,415</u>	<u>\$6,656,260</u>

See accompanying notes to the basic financial statements

McDonald Local School District
*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, 2017*

Net Change in Fund Balances - Total Governmental Funds \$1,427,179

Amounts reported for governmental activities in the statement of activities are different because

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. This is the amount by which depreciation exceeded capital outlay in the current period.

Capital Asset Additions	236,221	
Current Year Depreciation	<u>(697,492)</u>	
 Total		 (461,271)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Delinquent Property Taxes	14,625	
Intergovernmental	<u>(16,621)</u>	
 Total		 (1,996)

Repayment of bond and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 144,073

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Accrued Interest	450	
Amortization of Accretion	(42,028)	
Amortization of Premium	8,615	
Amortization of Accounting Loss	<u>(5,593)</u>	
 Total		 (38,556)

Contractually required contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows. 607,145

Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities. (987,969)

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 governmental funds. (68,669)

Change in Net Position of Governmental Activities \$619,936

See accompanying notes to the basic financial statements

McDonald Local School District
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2017

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Property Taxes	\$1,440,506	\$1,425,779	\$1,425,779	\$0
Intergovernmental	5,759,348	5,688,483	5,700,467	11,984
Interest	50,998	50,861	50,476	(385)
Tuition and Fees	1,359,519	1,343,743	1,345,620	1,877
Charges for Services	29,742	28,172	29,438	1,266
Rentals	16,923	16,750	16,750	0
Miscellaneous	15	430	431	1
<i>Total Revenues</i>	<u>8,657,051</u>	<u>8,554,218</u>	<u>8,568,961</u>	<u>14,743</u>
Expenditures				
Current:				
Instruction:				
Regular	3,908,692	4,074,602	3,881,443	193,159
Special	660,193	819,306	780,513	38,793
Vocational	36,216	65,149	62,059	3,090
Support Services:				
Pupils	197,993	235,973	224,779	11,194
Instructional Staff	13,963	10,612	10,109	503
Board of Education	48,159	50,205	47,855	2,350
Administration	554,930	607,592	578,967	28,625
Fiscal	168,852	197,174	187,891	9,283
Operation and Maintenance of Plant	670,009	761,995	726,321	35,674
Pupil Transportation	117,811	169,067	160,989	8,078
Central	63,122	40,454	38,535	1,919
Operation of Non-Instructional Services	4,939	32,301	30,930	1,371
Extracurricular Activities	172,834	193,623	184,440	9,183
<i>Total Expenditures</i>	<u>6,617,713</u>	<u>7,258,053</u>	<u>6,914,831</u>	<u>343,222</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	2,039,338	1,296,165	1,654,130	357,965
Other Financing Sources (Uses)				
Transfers Out	(190,000)	(2,799,000)	(2,799,000)	0
<i>Net Change in Fund Balance</i>	1,849,338	(1,502,835)	(1,144,870)	357,965
<i>Fund Balance Beginning of Year</i>	5,728,036	5,728,036	5,728,036	0
Prior Year Encumbrances Appropriated	14,010	14,010	14,010	0
<i>Fund Balance End of Year</i>	<u>\$7,591,384</u>	<u>\$4,239,211</u>	<u>\$4,597,176</u>	<u>\$357,965</u>

See accompanying notes to the basic financial statements

McDonald Local School District
Statement of Fiduciary Assets and Liabilities
Agency Fund
June 30, 2017

Assets

Equity in Pooled Cash and Cash Equivalents	<u><u>\$34,222</u></u>
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Liabilities

Due to Students	<u><u>\$34,222</u></u>
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See accompanying notes to the basic financial statements

McDonald Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

Note 1 - Description of the School District and Reporting Entity

McDonald Local School District (the School District) is organized under Article VI, Section 2 and 3 of the Constitution of the State of Ohio to provide educational services to students and other community members of the School District. The School District operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four year terms.

The School District serves an area of approximately 3 square miles in Trumbull County, including the Village of McDonald and portions of surrounding townships. The School District operates one elementary school and one comprehensive middle/high school. It is staffed by 54 certified and 18 classified personnel to provide services to 847 students and other community members.

Reporting Entity

A reporting entity is composed of the primary government, component units and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the School District consists of all funds, departments, boards and agencies that are not legally separate from the School District. For the School District, this includes the agencies and departments that provide the following services: general operations, food service and student related activities of the School District.

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt or the levying of taxes, and there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. The School District has no component units.

The School District participates in two jointly governed organizations and one shared risk pool. The organizations are the Northeast Ohio Management Information Network, the Trumbull Career and Technical Center and the Trumbull County Schools Employee Insurance Benefit Consortium. These organizations are presented in Notes 13 and 14 to the basic financial statements.

Note 2 - Summary of Significant Accounting Policies

The financial statements of the School District have been prepared in conformity with generally accepted accounting principles (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 more significant of the School District's accounting policies are described below.

Basis of Presentation

The School District's basic financial statements consist of government-wide statements, including a statement of net position and a statement of activities and fund financial statements which provide a more detailed level of financial information.

McDonald Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

Government-wide Financial Statements The statement of net position and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. These statements usually distinguish between those activities of the School District that are governmental and those that are considered business-type. The School District, however, has no business-type activities.

The statement of net position presents the financial condition of the governmental activities of the School District at fiscal year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the School District's governmental activities. 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 charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the School District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the School District.

Fund Financial Statements During the year, the School District segregates transactions related to certain School District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the School District at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

Fund Accounting

The School 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. In reporting its financial activities, the School District uses two categories of funds: governmental 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 deferred outflows of resources and liabilities and deferred inflows of resources is reported as fund balance. The following are the School District's major governmental funds:

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

District Replacement Fund The district replacement fund is used to account for and report the monies transferred from the general fund committed to replace items that have become obsolete and require replacement.

The other governmental funds of the School District account for grants and other resources whose use is restricted, committed or assigned to a particular purpose.

McDonald Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

Fiduciary Funds Fiduciary fund reporting focuses on net position and changes in net position. 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 School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's agency fund accounts for student activities.

Measurement Focus

Government-wide Financial Statements The government-wide financial statements are prepared using the economic resources measurement focus. All assets and deferred outflows of resources and all liabilities and deferred inflows of resources associated with the operation of the School District are included on the statement of net position. The statement of activities presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position.

Fund Financial Statements All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and deferred outflows of resources and current liabilities and deferred inflows of resources, generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (e.g., revenues and other financing sources) and uses (e.g., 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.

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 and the statement presented for the fiduciary fund are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred inflows/outflows of resources, and in the presentation of expenses versus expenditures.

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 School District, available means expected to be received within sixty days of fiscal year-end.

Nonexchange transactions, in which the School 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 in 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 year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

McDonald Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

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, fees and rentals.

Deferred Outflows/Inflows of Resources In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the School District, deferred outflows of resources are reported on the government-wide statement of net position for deferred charges on refunding and for pension. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The deferred outflows of resources related to pension are explained in Note 16.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized until that time. For the School District, deferred inflows of resources include property taxes, pension and unavailable revenue. Property taxes represent amounts for which there is an enforceable legal claim as of June 30, 2017, but which were levied to finance fiscal year 2018 operations. These amounts have been recorded as a deferred inflow on both the government-wide statement of net position and governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the School District, unavailable revenue includes delinquent property taxes and intergovernmental grants. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. The details of these unavailable revenues are identified on the Reconciliation of Total Governmental Fund Balance to Net Position of Governmental Activities found on page 16. Deferred inflows of resources related to pension are reported on the government-wide statement of net position. (See Note 16)

Expenses/Expenditures On the accrual basis of accounting, expenses are recognized at the time they are incurred.

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. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

Budgetary Data

All funds, other than agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and set annual limits on expenditures plus encumbrances at a level of control selected by the

McDonald Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

Board. The legal level of control has been established by the Board of Education at the fund level for all funds. The Treasurer has been given the authority to allocate board appropriations to the function and object levels within each fund.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported as the original and final budgeted amounts in the budgetary statements reflect the amounts in the amended certificate when the original and final appropriations were passed by the Board of Education. Prior to June 30, the Board requested and received an amended certificate in which estimated revenue closely match actual revenue for the fiscal year.

The appropriation resolution is subject to amendment by the Board throughout the year with the restriction that appropriations may not exceed estimated revenues. The amounts reported as the original budgeted amounts reflect the first appropriation for that fund that covered the entire fiscal year, including amounts automatically carried over from prior fiscal years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the fiscal year. Prior to year end the Board of Education adopted appropriations which closely match actual expenditures plus encumbrances.

Cash and Cash Equivalents

To improve cash management, cash received by the School District is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the School District's records. Interest in the pool is presented as "equity in pooled cash and cash equivalents" on the financial statements.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2017 amounted to \$50,476, which includes \$21,282 assigned from other School District funds.

Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are presented on the financial statements as cash equivalents.

During fiscal year 2017, the School District invested in STAR Ohio. STAR Ohio (the State Treasury Asset Reserve of 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 has adopted Governmental Accounting Standards Board (GASB), Statement No. 79, "Certain External Investment Pools and Pool Participants." The School District measures their investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value.

For the fiscal year 2017, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$50 million, requiring the excess amount to be transacted the following business day(s), but only to the \$50 million limit. All accounts of the participant will be combined for these purposes.

Inventory

Inventories are presented at cost on a first-in, first-out basis and are expended/expensed when used. Inventory consists of expendable supplies and donated and purchased food held for resale.

McDonald Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2017, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which the services are consumed.

Restricted Assets

Assets are reported as restricted when limitations on their use change in nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, laws of other governments, or imposed by law through constitutional provisions. Restricted assets in the general fund include unspent resources restricted for unclaimed monies.

Capital Assets

The School District's only capital assets are general capital assets. 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 position 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 retirements during the year. The School District was able to estimate the historical cost for the initial reporting of assets by backtrending (i.e., estimating the current replacement cost of the asset to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year.) Donated capital assets are recorded at their acquisition values as of the date received. The School District maintains a capitalization threshold of five thousand dollars. The School District does not possess any infrastructure. 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 capitalized.

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	20 years
Building and Improvements	20 - 50 years
Equipment and Furniture	5 - 20 years
Vehicles	8 years

Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means. The School District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the School District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the School District's

McDonald Local School District
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For the Fiscal Year Ended June 30, 2017

termination policy. The School District records a liability for accumulated unused sick leave for all employees at least 50 years of age with 10 years of service and all employees at any age with 20 years of service.

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

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, and are reported as obligations of the funds. However, claims and judgments, compensated absences and pension liability 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 fiscal year. Bonds and capital leases are recognized as a liability on the fund financial statements when due.

Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the School is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

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

Committed The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by the highest level formal action (resolution) of the School District Board of Education. Those committed amounts cannot be used for any other purpose unless the School District Board of Education removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned Amounts in the assigned fund balance classification are intended to be used by the School District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. These amounts are assigned by the School District Board of Education. In the general fund, assigned amounts represent intended uses established by the School District Board of Education or a School District official delegated that authority by State statute. State statute authorizes the Treasurer to assign fund balance purchases on order provided such amounts have been lawfully appropriated. The Board of Education assigned fund balance for administrative purposes.

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

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

Net Position

Net position represents the difference between all other elements in a statement of financial position. Net investment in capital assets consists 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 position is reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net position restricted for other purposes include resources restricted for food service and extracurricular activities.

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

Deferred Charge on Refunding

On the government-wide financial statements, the difference between the reacquisition price (funds required to refund the old debt) and the net carrying amount of the old debt, the gain/loss on the refunding, is being amortized as a component of interest expense. This deferred amount is amortized over the life of the old or new debt, whichever is shorter, using the effective interest method and is presented as deferred outflows of resources on the statement of net position.

Bond Premiums

On the government-wide financial statements, bond premiums are deferred and amortized over the term of the bonds using the straight line method. Bond premiums are presented as an increase of the face amount of the general obligation bonds payable. On fund financial statements, bond premiums are received in the year the bonds are issued. Under Ohio law, premiums on the initial issuance of debt are to be deposited to the bond retirement fund to be used for debt retirement and are precluded from being applied to the project fund. Ohio law does allow premiums on refunding debt to be used as part of the payment to the bond escrow agent.

Estimates

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

McDonald Local School District
Notes to the Basic Financial Statements
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Note 3 - Budgetary Basis of Accounting

While the School District is 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, disbursements and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual 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 GAAP basis are that:

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Encumbrances are treated as expenditures (budget) rather than restricted, committed, or assigned fund balance (GAAP).
4. Budgetary revenues and expenditures of the public school support special revenue funds are classified to the general fund for GAAP reporting.

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements on a fund type basis for the general fund:

Net Change in Fund Balance	
GAAP Basis	(\$1,225,813)
Revenue Accruals	(17,139)
Expenditure Accruals	117,086
Perspective Difference:	
Public School Support	4,398
Encumbrances	(23,402)
Budget Basis	<u><u>(\$1,144,870)</u></u>

Note 4 – Fund Balances

Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the School District is bound to observe constraints imposed upon the use of resources in the governmental funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

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Fund Balances	General	District Replacement	Other Governmental Funds	Total
<i>Nonspendable</i>				
Prepays	\$17,504	\$0	\$250	\$17,754
Unclaimed Monies	21,725	0	0	21,725
<i>Total Nonspendable</i>	39,229	0	250	39,479
<i>Restricted for</i>				
Food Service Operations	0	0	15,382	15,382
Scholarships	0	0	52,794	52,794
Athletics	0	0	12,676	12,676
Classroom Facilities Maintenance	0	0	110,588	110,588
Technology Improvements	0	0	825	825
Debt Service Payments	0	0	127,573	127,573
Capital Improvements	0	0	132,424	132,424
<i>Total Restricted</i>	0	0	452,262	452,262
<i>Committed to</i>				
Capital Projects	0	2,885,039	0	2,885,039
<i>Assigned to</i>				
Purchases on Order				
Regular Instruction	482	0	0	482
Special Instruction	1,354	0	0	1,354
Administration	3,412	0	0	3,412
Fiscal	1,430	0	0	1,430
Operation and Maintenance of Plant	9,857	0	0	9,857
Pupil Transportation	528	0	0	528
Operation of Non-Instructional Services	3,400	0	0	3,400
Administrative	1,274	0	0	1,274
<i>Total Assigned</i>	21,737	0	0	21,737
<i>Unassigned (Deficit)</i>	3,261,840	0	(4,097)	3,257,743
<i>Total Fund Balances</i>	\$3,322,806	\$2,885,039	\$448,415	\$6,656,260

Note 5 - Deposits and Investments

Monies held by the School District are classified by State statute into three categories.

Active monies are public monies determined to be necessary to meet current demands upon the School District treasury. Active monies must be maintained either as cash in the School 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 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.

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Interim deposits are deposits of interim monies. Interim monies 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 held by the School District can be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, 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 obligation or security issued by any federal governmental 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, and Government National Mortgage Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in securities listed above;
4. Bonds and other obligations of the State of Ohio;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2);
7. The State Treasurer's investment pool (STAR Ohio); and
8. Commercial paper and bankers acceptances if training requirements have been met.

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. Investments may only be made through specified dealers and institutions.

Investments

As of June 30, 2017, the School District had STAR Ohio as an investment. STAR Ohio is being held with an amount of \$7,257,725 which is insured at net asset value per share. The average maturity is 46 days.

Note 6 – Property Taxes

Property taxes are levied and assessed on a calendar year basis while the School District's fiscal year runs from July through June. First half tax collections are received by the School 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 property and public utility property located in the School District. Real property tax revenues received in calendar year 2017 represents collections of calendar year 2016 taxes. Real property taxes received in calendar year 2017 were levied after April 1, 2016, on the assessed value listed as of January 1, 2016, the lien date. Assessed values for real property are established by State law at thirty-five percent of appraised market value. Real property are payable annually or semi-

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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 revenues received in calendar year 2017 represents collections of calendar year 2016 taxes. Public utility real and tangible personal property taxes received in calendar year 2016 become a lien December 31, 2015, were levied after April 1, 2016 and are collected in 2017 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.

The School District receives property taxes from Trumbull County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2017, are available to finance fiscal year 2017 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property and public utility property taxes which are measurable as of June 30, 2017 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 were levied to finance current fiscal year operations are 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 deferred inflows of resources – property taxes. On the accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue while on the modified accrual basis the revenue has been reported as deferred inflows of resources – unavailable revenue.

The amount available as an advance at June 30, 2017 was \$4,497 in the general fund, \$59 in the classroom facilities special revenue fund, \$661 in the permanent improvement capital projects fund and \$378 in the bond retirement debt service fund. The amount available as an advance at June 30, 2016, was \$843 in the general fund, \$11 in the classroom facilities special revenue fund, \$119 in the permanent improvement capital projects fund and \$69 in the bond retirement debt service fund.

The assessed values upon which the fiscal year 2017 taxes were collected are:

	2016 Second Half Collections		2017 First Half Collections	
	Amount	Percent	Amount	Percent
Real Estate	\$50,714,360	96.90%	\$50,685,290	96.83%
Public Utility Personal	1,624,590	3.10	1,660,690	3.17
Total	\$52,338,950	100.00%	\$52,345,980	100.00%
Full Tax Rate per \$1,000 of assessed valuation	\$61.00		\$58.40	

Note 7 - Receivables

Receivables at June 30, 2017, consisted of taxes and intergovernmental monies. 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. All receivables except property taxes are expected to be received within one year. Property taxes, although ultimately collectible, include some portion of delinquencies that will not be collected within one year.

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The general fund had foundation adjustments in the amount of \$23,098. The general fund and the food service and title I special revenue funds had a Workers' Compensation refund receivable in the amount of \$21,420.

Note 8 – Capital Assets

Capital asset activity for the fiscal year ended June 30, 2017, was as follows:

	Balance June 30, 2016	Additions	Deletions	Balance June 30, 2017
Nondepreciable Capital Assets				
Land	\$311,600	\$0	\$0	\$311,600
Construction in Progress	197,913	85,435	(283,348)	0
<i>Total Nondepreciable Capital Assets</i>	<u>509,513</u>	<u>85,435</u>	<u>(283,348)</u>	<u>311,600</u>
Depreciable Capital Assets				
Land Improvements	672,688	192,746	0	865,434
Buildings and Improvements	20,058,110	99,952	0	20,158,062
Equipment and Furniture	448,026	141,436	(23,175)	566,287
Vehicles	422,029	0	(54,506)	367,523
<i>Total at Historical Cost</i>	<u>21,600,853</u>	<u>434,134</u>	<u>(77,681)</u>	<u>21,957,306</u>
Less: Accumulated Depreciation				
Land Improvements	(356,058)	(37,484)	0	(393,542)
Buildings and Improvements	(9,765,040)	(598,083)	0	(10,363,123)
Equipment and Furniture	(309,562)	(31,343)	23,175	(317,730)
Vehicles	(256,008)	(30,582)	54,506	(232,084)
<i>Total Accumulated Depreciation</i>	<u>(10,686,668)</u>	<u>(697,492) *</u>	<u>77,681</u>	<u>(11,306,479)</u>
<i>Depreciable Capital Assets, Net of Accumulated Depreciation</i>	<u>10,914,185</u>	<u>(263,358)</u>	<u>0</u>	<u>10,650,827</u>
<i>Governmental Activities Capital Assets, Net</i>	<u>\$11,423,698</u>	<u>(\$177,923)</u>	<u>(\$283,348)</u>	<u>\$10,962,427</u>

* Depreciation expense was charged to governmental functions as follows:

Instruction	
Regular	\$623,560
Support Services	
Administration	12,265
Operation and Maintenance of Plant	27,243
Pupil Transportation	30,582
Operation of Food Service	3,736
Extracurricular Activities	106
Total Depreciation Expense	<u>\$697,492</u>

McDonald Local School District
Notes to the Basic Financial Statements
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Note 9 – Long-Term Obligations

Original issue amounts and interest rates of the School District’s debt issues were as follows:

Debt Issue	Interest Rate	Original Issue	Year of Maturity
2006 School Improvement Bonds:			
Capital Appreciation Bonds	4.60% to 4.70%	84,997	2020
Current Issue Term Bonds	3.70% to 4.10%	580,000	2023

Changes in long-term obligations of the School District during fiscal year 2017 were as follows:

	Principal Outstanding June 30, 2016	Additions	Deductions	Principal Outstanding June 30, 2017	Amount Due in One Year
Governmental Activities					
General Obligation Bonds					
2006 School Improvement Bonds					
Current Interest Serial Bonds	\$135,000	\$0	(\$135,000)	\$0	\$0
Capital Appreciation Bonds	84,997	0	0	84,997	32,045
Accretion	221,193	42,028	0	263,221	107,955
Current Interest Term Bonds	435,000	0	0	435,000	0
Premium on Bonds	55,286	0	(8,615)	46,671	0
<i>Total General Obligation Bonds</i>	<u>931,476</u>	<u>42,028</u>	<u>(143,615)</u>	<u>829,889</u>	<u>140,000</u>
Other Long-term Obligations					
Net Pension Liability					
STRS	8,619,376	1,720,085	0	10,339,461	0
SERS	1,115,491	511,765	0	1,627,256	0
<i>Total Net Pension Liability</i>	<u>9,734,867</u>	<u>2,231,850</u>	<u>0</u>	<u>11,966,717</u>	<u>0</u>
Capital Leases	50,166	0	(9,073)	41,093	9,618
Compensated Absences	293,832	203,152	(134,483)	362,501	13,092
<i>Total Other Long-term Obligations</i>	<u>10,078,865</u>	<u>2,435,002</u>	<u>(143,556)</u>	<u>12,370,311</u>	<u>22,710</u>
<i>Total Governmental Activities Long-Term Liabilities</i>	<u>\$11,010,341</u>	<u>\$2,477,030</u>	<u>(\$287,171)</u>	<u>\$13,200,200</u>	<u>\$162,710</u>

In 2006, the School District issued \$1,289,997 in school improvement general obligation bonds which included serial, term and capital appreciation (deep discount) bonds in the amounts of \$625,000, \$580,000 and \$84,997, respectively. The general obligation bonds were issued for the purpose of refunding a portion of the 2001 school improvement bonds to take advantage of lower interest rates. The bonds were issued for a 16 year period with a final maturity at December 1, 2022. The serial bonds were retired in fiscal year 2017. The remaining bonds will be retired from the debt service fund.

The term and capital appreciation bonds remained outstanding at June 30, 2017. The capital appreciation bonds were originally sold at a discount of \$335,003, which is being accreted annually until the point of maturity of the capital appreciation bonds, which is 2018 through 2020.

The maturity amount of outstanding capital appreciation bonds at June 30, 2017 is \$420,000. The accretion recorded for 2017 was \$42,028, for a total outstanding bond liability of \$348,218 at June 30, 2017.

McDonald Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

The term bonds maturing on December 1, 2022 are subject to mandatory sinking fund redemption at a redemption price of 100 percent of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1 in the years and in the respective principal amounts as follows:

Year	Issue
	\$435,000
2020	\$140,000
2021	145,000
Total Mandatory Sinking	
Fund Payments	285,000
Amount Due at Stated Maturity	150,000
Total	\$435,000
<i>Stated Maturity</i>	<i>12/1/2022</i>

The capital lease will be paid out of the general fund. Compensated absences will be paid from the general fund, the food service special revenue fund and the Title I special revenue fund. There is no repayment schedule for the net pension liability. However, employer pension contributions are made from the following funds: the general fund, the food service special revenue fund and the Title I special revenue fund. For additional information related to the net pension liability see Note 16.

The overall debt margin of the School District as of June 30, 2017, was \$4,318,714 with an unvoted debt margin of \$52,346. Principal and interest requirements to retire general obligation bonds and capital appreciation outstanding at June 30, 2017, are as follows:

Fiscal Year Ending June 30	General Obligation Bonds			
	Capital Appreciation		Term	
	Principal	Accretion	Principal	Interest
2018	\$32,045	\$107,955	\$0	\$17,835
2019	28,176	111,824	0	17,835
2020	24,776	115,224	0	17,835
2021	0	0	140,000	14,965
2022	0	0	145,000	9,123
2023	0	0	150,000	3,075
Total	\$84,997	\$335,003	\$435,000	\$80,668

Note 10 – Accountability

At June 30, 2017, the title I special revenue fund had a deficit fund balance of \$4,016. This fund deficit resulted from adjustments for accrued liabilities. The general fund is liable for any fund deficits and provides transfers when cash is required, rather than when accruals occur.

Note 11 - Interfund Transfers

The general fund made a transfer of \$2,780,000 to the district replacement capital projects fund to help with capital purchases. The general fund transferred \$19,000 to the district managed student activity special revenue fund to help fund athletic events.

McDonald Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

Note 12 – Capital Leases

The School District has an existing lease for copier equipment. The lease obligation meets the criteria of a capital lease. The original amounts capitalized for the capital leases and the book value as of June 30, 2017 follows:

	<u>Amount</u>
Furniture and Equipment	\$50,899
Less: Accumulated Depreciation	(20,360)
Current Book Value	\$30,539

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the minimum lease payments as of June, 30, 2017.

Fiscal Year Ending June 30,	Governmental Activities
2018	\$11,763
2019	11,763
2020	11,763
2021	10,782
Total Minimum Lease Payments	46,071
Less: Amount Representing Interest	(4,978)
Present Value of Net Minimum Lease Payments	\$41,093

Note 13 - Jointly Governed Organizations

Northeast Ohio Management Information Network (NEOMIN) NEOMIN is a jointly governed organization among twenty-nine school districts and two educational service centers in Trumbull and Ashtabula Counties. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. Each of the districts supports NEOMIN based upon a per pupil charge. McDonald Local School District paid \$40,168 to NEOMIN during fiscal year 2017.

The Governing board consists of ten members: The Trumbull and Ashtabula County superintendents (permanent members), three superintendents from Ashtabula County participating school districts, three superintendents from Trumbull County participating school districts, the fiscal agent (or NEOMIN). The McDonald Local School District was not represented on the Governing Board during fiscal year 2017. The Board exercises total control over the operations of NEOMIN including budgeting, appropriating, contracting and designating management. The degree of control exercised by any participating school district is limited to its representation on the Governing Board. To obtain a copy of NEOMIN’s financial statements, write to the Trumbull County Educational Service Center, 6000 Youngstown Warren Road, Niles, Ohio 44446.

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Trumbull Career and Technical Center The Trumbull Career and Technical Center is a distinct political subdivision of the State of Ohio providing vocational needs of the students. The center is operated under the direction of a Board consisting of one representative from each of the fifteen participating school districts' elected boards, which possesses its own budgeting and taxing authority. To obtain financial information write to the Trumbull Career and Technical Center, Gary Ghizzoni, who serves as Treasurer, at 528 Educational Highway, Warren, Ohio 44483.

Note 14 – Shared Risk Pool

Trumbull County Schools Employee Insurance Benefit Consortium The School District participates in the Trumbull County Schools Employee Insurance Consortium. This is a shared risk pool comprised of sixteen Trumbull County School Districts. The Consortium is governed by an assembly which consists of one representative from each participating school district (usually the superintendent or designee). The assembly elects officers for one year terms to serve as the Board of Directors. The assembly exercises control over the operation of the Consortium. Consortium revenues are generated from charges for services.

Note 15 - Risk Management

Property and Liability

The School 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 School District maintains comprehensive commercial insurance coverage through Ohio School Plan 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 \$1,000 and a comprehensive deductible of \$1,000.

Real property and contents are fully insured. Limits of insurance on real property and equipment are \$37,898,285 with a deductible of \$1,000.

The School District has earthquake and flood insurance policies. Limits on these policies are \$1,000,000 with a deductible of \$25,000.

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

Trumbull County Schools Employee Insurance Benefit Consortium

The School District has contracted with the Trumbull County Schools Employee Insurance Benefit Consortium to provide employee medical/surgical, dental, and prescription drug benefits. The Trumbull County Schools Employee Insurance Benefit Consortium is a shared risk pool comprised of sixteen Trumbull County school districts. Rates are set through an annual calculation process. The McDonald Local School District pays a monthly contribution which is placed in a common fund from which claim payments are made for all participating school districts. Medical Mutual is the third party administrator for the Consortium. Claims are paid for all participants regardless of claims flow. The board of directors has the right to return monies to an exiting district subsequent to the settlement of all expenses and claims. Employees can choose between three different medical/surgical/prescription plans. The medical/surgical prescription drug premiums for the first option are \$1,466 for family coverage and \$563 for single coverage per employee per month. Classified staff pays 10 percent of this premium and certified staff pays 10 percent of this premium. The School District pays the remaining percentage. The medical/surgical prescription drug premiums for the

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For the Fiscal Year Ended June 30, 2017

second option are \$1,316 for family coverage and \$505 for single coverage per employee per month. Both classified and certified staff pays 10 percent of this premium and the remaining percentage is paid by the School District. The third option is a high deductible plan where the Board pays \$1,167 for family coverage and \$448 for single coverage. No employees have selected the third option. If the School District were to withdraw from the Consortium, there would be no liability because premium levels fund a reserve for subsequent claim payments.

Settled claims have not exceeded this commercial coverage in any of the past three years. There have been no significant reductions in coverage from last year.

Worker's Compensation

The School pays the State Worker's Compensation System a premium for employee injury coverage. The premium is calculated by multiplying the monthly total gross payroll times the contribution rate established by Worker's Compensation for the School District. This rate is calculated based on accident history and administrative costs.

Note 16 – Defined Benefit Pension Plans

Net Pension Liability

The net pension liability reported on the statement of net position represents a liability to employees for pensions. Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net pension liability represents the School District's proportionate share of each pension plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan's fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

Ohio Revised Code limits the School District's obligation for this liability to annually required payments. The School District cannot control benefit terms or the manner in which pensions are financed; however, the School District does receive the benefit of employees' services in exchange for compensation including pension.

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

McDonald Local School District
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For the Fiscal Year Ended June 30, 2017

The proportionate share of each plan’s unfunded benefits is presented as a long-term *net pension liability* on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in *intergovernmental payable* on both the accrual and modified accrual bases of accounting.

Plan Description - School Employees Retirement System (SERS)

Plan Description – School District non-teaching employees participate in SERS, a cost-sharing multiple-employer defined benefit pension plan administered by SERS. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements, required supplementary information and detailed information about SERS’ fiduciary net position. That report can be obtained by visiting the SERS website at www.ohsers.org under Employers/Audit Resources.

Age and service requirements for retirement are as follows:

	Eligible to Retire on or before August 1, 2017 *	Eligible to Retire on or after August 1, 2017
Full Benefits	Any age with 30 years of service credit	Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit
Actuarially Reduced Benefits	Age 60 with 5 years of service credit Age 55 with 25 years of service credit	Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit

* Members with 25 years of service credit as of August 1, 2017, will be included in this plan.

Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on years of service; 2.2 percent for the first thirty years of service and 2.5 percent for years of service credit over 30. Final average salary is the average of the highest three years of salary.

One year after an effective benefit date, a benefit recipient is entitled to a three percent cost-of-living adjustment (COLA). This same COLA is added each year to the base benefit amount on the anniversary date of the benefit.

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS’ Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System’s funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2017, the allocation to pension, death benefits, and Medicare B was 14 percent. No allocation was made to the Health Care Fund.

The School District’s contractually required contribution to SERS was \$104,727 for fiscal year 2017. Of this amount \$23,021 is reported as an intergovernmental payable.

Plan Description - State Teachers Retirement System (STRS)

Plan Description – School District licensed teachers and other faculty members participate in STRS Ohio, a cost-sharing multiple employer public employee system administered by STRS. STRS provides retirement

McDonald Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

and disability benefits to members and death and survivor benefits to beneficiaries. STRS issues a stand-alone financial report that includes financial statements, required supplementary information, and detailed information about STRS' fiduciary net position. That report can be obtained by writing to STRS, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Web site 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. Benefits are established by Ohio Revised Code Chapter 3307.

The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation is 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 25 years of service, or 30 years of service regardless of age. Eligibility changes will be phased in until August 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age 65, or 35 years of service credit and at least age 60.

The DC Plan allows members to place all their member contributions and 9.5 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal.

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, 12 percent of the 14 percent member rate goes to the DC Plan and the remaining 2 percent is applied to the DB Plan. Member contributions to the DC Plan are allocated among investment choices by the member, and contributions to the DB Plan from the employer and the member are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of service. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity after termination of employment at age 50 or later.

New members who choose the DC plan or Combined Plan will have another opportunity to reselect a permanent plan during their fifth year of membership. Members may remain in the same plan or transfer to another STRS plan. The optional annuitization of a member's defined contribution account or the defined contribution portion of a member's Combined Plan account to a lifetime benefit results in STRS bearing the risk of investment gain or loss on the account. STRS has therefore included all three plan options as one defined benefit plan for GASB 68 reporting purposes.

A DB or Combined Plan member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least ten years of qualifying service credit to apply for disability benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

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Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For the fiscal year ended June 30, 2017, the employer rate was 14 percent and the plan members were also required to contribute 14 percent of covered salary. The statutory member contribution rate was increased one percent to 14 percent on July 1, 2016. The fiscal year 2017 contribution rates were equal to the statutory maximum rates.

The School District’s contractually required contribution to STRS was \$502,418 for fiscal year 2017. Of this amount \$106,536 is reported as an intergovernmental payable.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School District’s proportion of the net pension liability was based on the School District’s share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the Net Pension Liability Prior Measurement Date	0.01954910%	0.03118773%	
Proportion of the Net Pension Liability Current Measurement Date	<u>0.02223310%</u>	<u>0.03088894%</u>	
Change in Proportionate Share	<u>0.00268400%</u>	<u>-0.00029879%</u>	
Proportionate Share of the Net Pension Liability	\$1,627,256	\$10,339,461	\$11,966,717
Pension Expense	\$205,800	\$782,169	\$987,969

At June 30, 2017, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred Outflows of Resources			
Differences between expected and actual experience	\$21,947	\$417,764	\$439,711
Changes of assumptions	108,628	0	108,628
Net difference between projected and actual earnings on pension plan investments	134,225	858,453	992,678
Changes in proportionate share and difference between School District contributions and proportionate share of contributions	113,910	103,333	217,243
School District contributions subsequent to the measurement date	<u>104,727</u>	<u>502,418</u>	<u>607,145</u>
Total Deferred Outflows of Resources	<u>\$483,437</u>	<u>\$1,881,968</u>	<u>\$2,365,405</u>
Deferred Inflows of Resources			
Changes in Proportionate Share and Difference between School District contributions and proportionate share of contributions	<u>\$11,323</u>	<u>\$70,433</u>	<u>\$81,756</u>

McDonald Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

\$607,145 reported as deferred outflows of resources related to pension resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	SERS	STRS	Total
Fiscal Year Ending June 30:			
2018	\$102,826	\$218,900	\$321,726
2019	102,729	218,899	321,628
2020	123,249	548,313	671,562
2021	38,583	323,005	361,588
Total	\$367,387	\$1,309,117	\$1,676,504

Actuarial Assumptions - SERS

SERS' total pension liability was determined by their actuaries in accordance with GASB Statement No. 67, as part of their annual actuarial valuation for each defined benefit retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment termination). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee's entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2016, compared with June 30, 2015, are presented below:

	June 30, 2016	June 30, 2015
Wage Inflation	3.00 percent	3.25 percent
Future Salary Increases, including inflation COLA or Ad Hoc COLA	3.50 percent to 18.20 percent 3 percent	4.00 percent to 22.00 percent 3 percent
Investment Rate of Return	7.50 percent net of investments expense, including inflation	7.75 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal	Entry Age Normal

McDonald Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

For 2016, the mortality assumptions are that mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females. For 2015, the mortality assumptions were based on the 1994 Group Annuity Mortality Table set back one year for both men and women. Special mortality tables were used for the period after disability retirement.

The most recent experience study was completed for the five year period ended June 30, 2015.

The long-term return expectation for the Pension Plan Investments has been determined by using a building-block approach and assumes a time horizon, as defined in SERS' *Statement of Investment Policy*. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating an arithmetic weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalanced uncorrelated asset classes.

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	1.00 %	0.50 %
US Stocks	22.50	4.75
Non-US Stocks	22.50	7.00
Fixed Income	19.00	1.50
Private Equity	10.00	8.00
Real Assets	15.00	5.00
Multi-Asset Strategies	10.00	3.00
Total	100.00 %	

Discount Rate The total pension liability was calculated using the discount rate of 7.50 percent. A discount rate of 7.75 percent was used in the prior measurement period. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.50 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.50 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50 percent), or one percentage point higher (8.50 percent) than the current rate.

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
School District's proportionate share of the net pension liability	\$2,154,388	\$1,627,256	\$1,186,028

McDonald Local School District
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For the Fiscal Year Ended June 30, 2017

Actuarial Assumptions - STRS

The total pension liability in the June 30, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75 percent
Salary increases	12.25 percent at age 20 to 2.75 percent at age 70
Investment Rate of Return	7.75 percent, net of investment expenses, including inflation
Cost-of-Living Adjustments (COLA)	2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, 2013, or later, 2 percent COLA commences on fifth anniversary of retirement date.

Mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males’ ages are set back two years through age 89 and no set back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89, and no set back from age 90 and above.

Actuarial assumptions used in the June 30, 2016, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

STRS’ investment consultant develops an estimate range for the investment return assumption based on the target allocation adopted by the Retirement Board. The target allocation and long-term expected rate of return for each major asset class are summarized as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Rate of Return *</u>
Domestic Equity	31.00 %	8.00 %
International Equity	26.00	7.85
Alternatives	14.00	8.00
Fixed Income	18.00	3.75
Real Estate	10.00	6.75
Liquidity Reserves	1.00	3.00
Total	100.00 %	7.61 %

* 10 year annualized geometric nominal returns include the real rate of return and inflation of 2.5 percent, and does not include investment expenses. The total fund long-term expected return reflects diversification among the asset classes and therefore is not a weighted average return of the individual asset classes.

Discount Rate The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2016. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions of future plan members, are excluded. Based on those assumptions, STRS’ fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2016.

McDonald Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2016.

Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following table presents the School District's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.75 percent, as well as what the School District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.75 percent) or one-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School District's proportionate share of the net pension liability	\$13,740,301	\$10,339,461	\$7,470,649

Changes between Measurement Date and Report Date

In March 2017, the STRS Board adopted certain assumption changes which will impact their annual actuarial valuation prepared as of June 30, 2017. The most significant change is a reduction in the discount rate from 7.75 percent to 7.45 percent. In April 2017, the STRS Board voted to suspend cost of living adjustments granted on or after July 1, 2017. Although the exact amount of these changes is not known, the overall decrease to School District's NPL is expected to be significant.

Note 17 – Postemployment Benefits

School Employees Retirement System

Health Care Plan Description - The School District contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 45 purposes, this plan is considered a cost-sharing, multiple-employer, defined benefit other postemployment benefit (OPEB) plan. SERS offers several types of health plans from various vendors, including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrator and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Active employee members do not contribute to the Health Care Plan. The SERS Retirement Board established the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2017, no allocation of covered payroll was made to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was

McDonald Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

earned. For fiscal year 2017, this amount was \$23,500. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2017, the School District's surcharge obligation was \$11,915.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The School District's contributions for health care for the fiscal years ended June 30, 2017, 2016 and 2015 were \$11,915, \$10,387 and \$10,428, respectively. The full amount has been contributed for fiscal years 2016 and 2015.

State Teachers Retirement System

Plan Description – The State Teachers Retirement System of Ohio (STRS Ohio) administers a cost-sharing multiple-employer defined benefit Health Plan administered for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Ohio law authorizes STRS to offer this plan. Benefits include hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which can be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board discretionary authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Health Care Plan. Nearly all health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For the fiscal years ended June 30, 2017, June 30, 2016 and June 30, 2015, STRS Ohio did not allocate any employer contributions to post-employment health care.

Note 18 - Other Employee Benefits

Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees earn ten to twenty-five days of vacation per year, depending upon length of service and hours worked. Teachers and most administrators do not earn vacation. Teachers, administrators and classified employees earn sick leave at the rate of one and one-fourth days per month. Certificated employees with ten years or more of service upon separation receive payment for twenty-five percent of the total sick leave accumulation, up to a maximum of 80 days. Classified employees with ten years or more of service upon retirement receive payment for twenty-five percent of the total sick leave accumulation.

Life Insurance Benefits

The School District provides life insurance to most employees through Voya Financial, in the amount of \$50,000 for all employees. Premiums are paid for by the Board of Education.

Note 19 – Contingencies

Grants

The School District received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims

McDonald Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

resulting from such audits could become a liability of the general fund or other applicable funds. However, the effect of any such disallowed claims on the overall financial position of the School District at June 30, 2017, if applicable, cannot be determined at this time.

School Foundation

School District foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. The Ohio Department of Education (ODE) is legislatively required to adjust/reconcile funding as enrollment information is updated by schools throughout the State, which can extend past the fiscal year end. As of the date of this report, additional ODE adjustments for fiscal year 2017 are not finalized. As a result, the impact of future FTE adjustments on the fiscal year 2017 financial statements is not determinable, at this time. Management believes this may result in either an additional receivable to, or a liability of, the School District.

Litigation

The School District is not party to legal proceedings as of June 30, 2017.

Note 20 - Set Asides

The School District is required by State statute to annually set aside in the general fund an amount based on a statutory formula for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at year end and carried forward to be used for the same purposes in future years.

The following cash basis information describes the change in the fiscal year end set aside amounts for capital acquisition. Disclosure of this information is required by State statute.

	Capital Improvements
Set-Aside Balance as of June 30, 2016	\$0
Current Year Set-aside Requirement	152,880
Offsets	(155,535)
Qualifying Disbursements	(4,646)
Total	(\$7,301)
Set-aside Balance Carried Forward to Future Fiscal Years	\$0
Set-aside Balance as of June 30, 2017	\$0

Although the School District had qualifying disbursements and offsets during the fiscal year that reduced the set-aside amount to below zero for the capital acquisitions set-aside, this amount may not be used to reduce the set-aside requirement for future fiscal years. This negative balance is therefore not presented as being carried forward to future fiscal years.

McDonald Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

Note 21 - Encumbrances

Encumbrances are commitments related to unperformed contracts for goods or services. Encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. At year end the amount of encumbrances expected to be honored upon performance by the vendor in the next year were as follows:

Governmental Funds	
General	\$23,402
District Replacement	31,079
Other Governmental Funds	<u>29,128</u>
<i>Total Governmental Funds</i>	<u><u>\$83,609</u></u>

Note 22 – Change in Accounting Principle

For fiscal year 2017, the School District implemented Governmental Accounting Standards Board (GASB) Statement No. 77, *Tax Abatement Disclosures*. GASB Statement No. 77 requires disclosure of information about the nature and magnitude of tax abatements. These changes were incorporated in the School District’s 2017 financial statements; however, the School District had no abatements that met the GASB 77 definition.

The School District also implemented GASB’s *Implementation Guide No. 2016.1*. These changes were incorporated in the School District’s fiscal year 2017 financial statements; however, there was no effect on beginning net position/fund balance.

Note 23 – Ohio School Facilities Project Liability

Nearly two decades ago, the School District participated in the Ohio School Facilities Commission (OSFC) Classroom Facilities Assistance Program for construction and renovation of School District facilities. The School District, seventeen years hence, still does not have the signed Certificate of Completion of the Project Agreement with the Ohio Facilities Construction Commission (OFCC) for a project close-out. The spreadsheet document calls for the signature of the School District Treasurer, the construction manager (CM) and the OSFC. Even the OFCC formerly known as OSFC has not signed the document. The School District reserves the right to bring legal action in regards to damages resulting from incomplete, inferior or omitted construction issues as partially listed in emails sent to officials at OSFC. As of June 30, 2017, the School District believes there is a strong case for OFCC to release any and all claims on the School District and to further award the School District all OFCC controlled grants missed during this dispute. As of the date of these financial statements, no payments have been exchanged between the School District and the OFCC. Due to the unilateral close-out forcing payment, the School District has recorded a liability in the amount of \$533,108 as intergovernmental payable in the general fund.

Required Supplementary Information

McDonald Local School District, Ohio
Required Supplementary Information
Schedule of the School District's Proportionate Share of the
Net Pension Liability
School Employees Retirement System of Ohio
*Last Four Fiscal Years (1)**

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
School District's Proportion of the Net Pension Liability	0.02223310%	0.01954910%	0.01992600%	0.01992600%
School District's Proportionate Share of the Net Pension Liability	\$1,627,256	\$1,115,491	\$1,008,444	\$1,184,935
School District's Covered Payroll	\$693,279	\$590,279	\$558,511	\$520,069
School District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	234.72%	188.98%	180.56%	227.84%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	62.98%	69.16%	71.70%	65.52%

(1) Although this schedule is intended to reflect information for ten years, information prior to 2014 is not available. An additional column will be added each year.

* Amounts presented for each fiscal year were determined as of the School District's measurement date which is the prior fiscal year end.

McDonald Local School District, Ohio
Required Supplementary Information
Schedule of the School District's Proportionate Share of the
Net Pension Liability
State Teachers Retirement System of Ohio
*Last Four Fiscal Years (1) **

	2017	2016	2015	2014
School District's Proportion of the Net Pension Liability	0.03088894%	0.03118773%	0.03054766%	0.03054766%
School District's Proportionate Share of the Net Pension Liability	\$10,339,461	\$8,619,376	\$7,430,248	\$8,850,863
School District's Covered Payroll	\$3,288,450	\$3,222,664	\$3,148,557	\$2,893,669
School District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	314.42%	267.46%	235.99%	305.87%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	66.80%	72.10%	74.70%	69.30%

(1) Although this schedule is intended to reflect information for ten years, information prior to 2014 is not available. An additional column will be added each year.

* Amounts presented for each fiscal year were determined as of the School District's measurement date which is the prior fiscal year end.

McDonald Local School District, Ohio
Required Supplementary Information
Schedule of the School District's Contributions
School Employees Retirement System of Ohio
Last Ten Fiscal Years

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually Required Contribution	\$104,727	\$97,059	\$77,799	\$77,410
Contributions in Relation to the Contractually Required Contribution	<u>(104,727)</u>	<u>(97,059)</u>	<u>(77,799)</u>	<u>(77,410)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
School District Covered Payroll	\$748,050	\$693,279	\$590,279	\$558,511
Contributions as a Percentage of Covered Payroll	14.00%	14.00%	13.18%	13.86%

2013	2012	2011	2010	2009	2008
\$71,978	\$69,637	\$59,268	\$99,640	\$65,575	\$62,970
(71,978)	(69,637)	(59,268)	(99,640)	(65,575)	(62,970)
\$0	\$0	\$0	\$0	\$0	\$0
\$520,069	\$517,748	\$471,507	\$735,892	\$666,414	\$641,245
13.84%	13.45%	12.57%	13.54%	9.84%	9.82%

McDonald Local School District, Ohio
Required Supplementary Information
Schedule of the School District's Contributions
State Teachers Retirement System of Ohio
Last Ten Fiscal Years

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually Required Contribution	\$502,418	\$460,383	\$451,173	\$409,312
Contributions in Relation to the Contractually Required Contribution	<u>(502,418)</u>	<u>(460,383)</u>	<u>(451,173)</u>	<u>(409,312)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
School District Covered Payroll	\$3,588,700	\$3,288,450	\$3,222,664	\$3,148,557
Contributions as a Percentage of Covered Payroll	14.00%	14.00%	14.00%	13.00%

<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
\$376,177	\$360,736	\$356,170	\$441,220	\$476,817	\$448,414
<u>(376,177)</u>	<u>(360,736)</u>	<u>(356,170)</u>	<u>(441,220)</u>	<u>(476,817)</u>	<u>(448,414)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
\$2,893,669	\$2,774,892	\$2,739,769	\$3,394,000	\$3,667,823	\$3,449,338
13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

McDonald Local School District, Ohio
Notes to Required Supplementary Information
For the Fiscal Year Ended June 30, 2017

Changes in Assumptions - SERS

Amounts reported for fiscal year 2017 incorporate changes in assumptions used by SERS in calculating the total pension liability in the latest actuarial valuation. These new assumptions compared with those used in fiscal year 2016 and prior are presented below:

	Fiscal Year 2017	Fiscal Year 2016 and Prior
Wage Inflation	3.00 percent	3.25 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent	4.00 percent to 22.00 percent
Investment Rate of Return	7.50 percent net of investments expense, including inflation	7.75 percent net of investments expense, including inflation

Amounts reported for fiscal year 2017 use mortality assumptions with mortality rates that are based on the RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females. Amounts reported for fiscal year 2016 and prior, use mortality assumptions that are based on the 1994 Group Annuity Mortality Table set back one year for both men and women. Special mortality tables were used for the period after disability retirement.



Dave Yost • Auditor of State

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

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

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, each 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, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 20, 2018.

Internal Control Over Financial Reporting

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

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

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

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 grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

Purpose of this Report

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



Dave Yost
Auditor of State
Columbus, Ohio

March 20, 2018



Dave Yost • 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
MAY 10, 2018**