



Mary Taylor, CPA
Auditor of State

**MCDONALD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the McDonald Local School District, Trumbull County, Ohio (the District), as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the McDonald Local School District, Trumbull County, Ohio, as of June 30, 2005, and the respective changes in financial position thereof, and the respective budgetary comparisons for the General Fund and Emergency Levy Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 29, 2007, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of law, regulations, contracts, and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

Mary Taylor, CPA
Auditor of State

June 29, 2007

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

The discussion and analysis of the McDonald Local School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2005. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2005 are as follows:

- In total, net assets of governmental activities decreased \$690,417 which represents a 4.38% decrease from 2004.
- General revenues accounted for \$5,169,758 in revenue or 81.08% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$1,206,133 or 18.92% of total revenues of \$6,375,891.
- The District had \$7,066,308 in expenses related to governmental activities; \$1,206,133 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$5,169,758 were not adequate to provide for these programs.
- The District's major governmental funds are the general fund, classroom facilities fund and emergency levy fund. The general fund had \$5,352,369 in revenues and \$5,396,754 in expenditures and other financing uses. During fiscal year 2005, the general fund's fund deficit increased \$44,385 from \$578,750 to \$623,135.
- The District's classroom facilities fund had no revenues and \$60,068 in expenditures. During fiscal year 2005, the classroom facilities fund's fund balance decreased \$60,068 from \$310,251 to \$250,183.
- The District's emergency levy fund had \$205,853 in revenues and \$205,898 in expenditures. During fiscal year 2005, the emergency levy fund's fund balance decreased \$45 from \$45 to \$0.

Using these Basic Financial Statements

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2005?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

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

Reporting the District's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* than can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 15-20 of this report.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private-purpose trust fund. The District also acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 21 and 22. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 23-49 of this report.

The District as a Whole

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

The table below provides a summary of the District's net assets for 2005 and 2004.

	Net Assets	
	Governmental Activities <u>2005</u>	Governmental Activities <u>2004</u>
<u>Assets</u>		
Current and other assets	\$ 1,914,582	\$ 2,088,179
Capital assets	<u>17,798,190</u>	<u>18,404,845</u>
Total assets	<u>19,712,772</u>	<u>20,493,024</u>
<u>Liabilities</u>		
Current liabilities	2,144,198	2,201,054
Long-term liabilities	<u>2,503,167</u>	<u>2,536,146</u>
Total liabilities	<u>4,647,365</u>	<u>4,737,200</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	15,745,041	16,261,357
Restricted	361,449	353,554
Unrestricted (deficit)	<u>(1,041,083)</u>	<u>(859,087)</u>
Total net assets	<u>\$ 15,065,407</u>	<u>\$ 15,755,824</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2005, the District's assets exceeded liabilities by \$15,065,407. Of this total, \$361,449 is restricted in use.

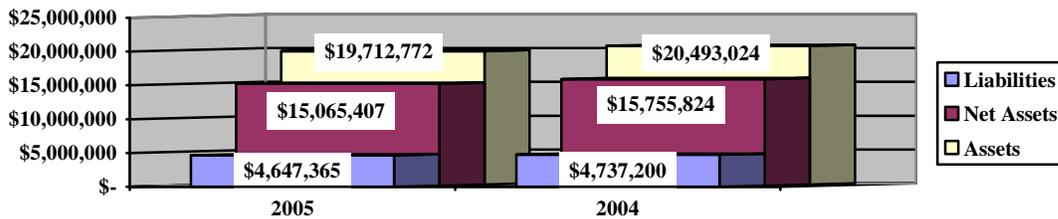
**MCDONALD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

At year-end, capital assets represented 90.29% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2005, were \$15,745,041. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$361,449, represents resources that are subject to external restriction on how they may be used. The remaining deficit of unrestricted net assets is \$1,041,083.

Governmental Activities



The table below shows the change in net assets for fiscal year 2005 and 2004:

Change in Net Assets

	Governmental Activities 2005	Governmental Activities 2004
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 819,024	\$ 655,231
Operating grants and contributions	352,321	248,593
Capital grants and contributions	34,788	104,798
General revenues:		
Property taxes	1,461,821	1,449,184
Grants and entitlements	3,605,757	3,726,119
Investment earnings	10,536	10,713
Other	91,644	35,129
Total revenues	6,375,891	6,229,767

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Change in Net Assets

	Governmental Activities <u>2005</u>	Governmental Activities <u>2004</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 4,189,813	\$ 4,221,578
Special	589,268	509,795
Vocational	91,500	45,597
Support services:		
Pupil	162,617	196,395
Instructional staff	99,069	80,929
Board of education	43,178	38,906
Administration	508,852	422,768
Fiscal	208,554	142,086
Operations and maintenance	523,783	643,670
Pupil transportation	100,960	87,041
Central	2,458	2,332
Food service operations	148,632	126,173
Extracurricular activities	226,880	187,773
Interest and fiscal charges	<u>170,744</u>	<u>126,215</u>
Total expenses	<u>7,066,308</u>	<u>6,831,258</u>
Change in net assets	(690,417)	(601,491)
Net assets at beginning of year	<u>15,755,824</u>	<u>16,357,315</u>
Net assets at end of year	<u>\$ 15,065,407</u>	<u>\$ 15,755,824</u>

Governmental Activities

Net assets of the District's governmental activities decreased \$690,417. Total governmental expenses of \$7,066,308 were offset by program revenues of \$1,206,133 and general revenues of \$5,169,758. Program revenues supported 17.07% of the total governmental expenses.

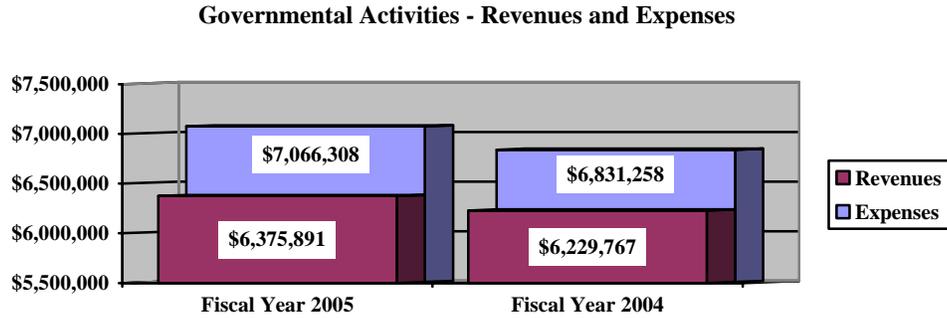
The primary sources of revenue for governmental activities are derived from property taxes, and grants and entitlements. These revenue sources represent 79.48% of total governmental revenue.

The largest expense of the District is for instructional programs. Instruction expenses totaled \$4,870,581 or 68.93% of total governmental expenses for fiscal 2005.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

The graph below presents the District's governmental activities revenue and expenses for fiscal year 2005 and 2004.



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

	Governmental Activities			
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
	2005	2005	2004	2004
Program expenses				
Instruction:				
Regular	\$ 4,189,813	\$ 3,464,147	\$ 4,221,578	\$ 3,637,165
Special	589,268	406,148	509,795	373,981
Vocational	91,500	91,500	45,597	45,597
Support services:				
Pupil	162,617	162,617	196,395	194,056
Instructional staff	99,069	99,069	80,929	80,929
Board of education	43,178	43,178	38,906	38,906
Administration	508,852	503,852	422,768	394,170
Fiscal	208,554	207,751	142,086	141,916
Operations and maintenance	523,783	499,047	643,670	554,677
Pupil transportation	100,960	100,960	87,041	87,041
Central	2,458	2,458	2,332	2,332
Food service operations	148,632	7,861	126,173	33,062
Extracurricular activities	226,880	100,843	187,773	112,589
Interest and fiscal charges	170,744	170,744	126,215	126,215
Total expenses	<u>\$ 7,066,308</u>	<u>\$ 5,860,175</u>	<u>\$ 6,831,258</u>	<u>\$ 5,822,636</u>

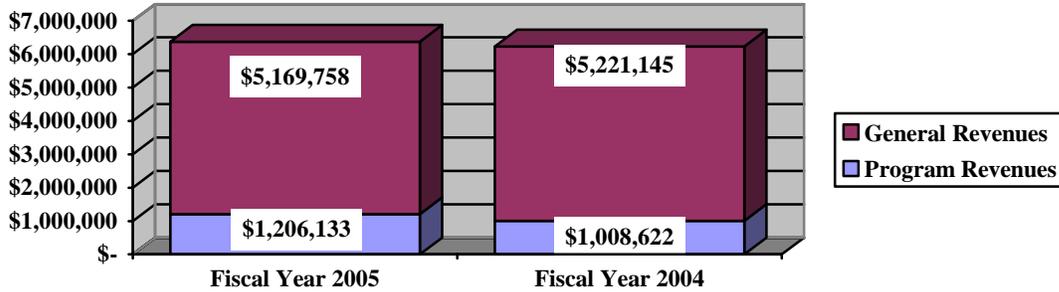
The dependence upon tax and other general revenues for governmental activities is apparent, 81.34% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 82.93%. The District's taxpayers, as a whole, are by far the primary support for District's students.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

The graph below presents the District's governmental activities revenue for fiscal year 2005 and 2004.

Governmental Activities - General and Program Revenues



The District's Funds

The District's governmental funds reported a combined fund deficit balance of \$358,946, which is a larger deficit than last year's fund deficit balance of \$255,402. The June 30, 2004 fund balances have been restated as described in Note 3.A. to the basic financial statements. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2005 and 2004.

	Fund Balance June 30, 2005	Restated Fund Balance June 30, 2004	Increase (Decrease)	Percentage Change
General	\$ (623,135)	\$ (578,750)	\$ (44,385)	7.67 %
Classroom Facilities	250,183	310,251	(60,068)	(19.36) %
Emergency Levy	-	45	(45)	(100.00) %
Other Governmental	<u>14,006</u>	<u>13,052</u>	<u>954</u>	7.31 %
Total	<u>\$ (358,946)</u>	<u>\$ (255,402)</u>	<u>\$ (103,544)</u>	40.54 %

General Fund

The District's general fund deficit balance increased \$44,385 (after a restatement to the June 30, 2004 fund balance which is detailed in Note 3.A. to the basic financial statements). The increase in fund deficit can be attributed to several items related to decreasing revenues and increased expenditures. Expenditures exceed revenues for fiscal year 2005 by \$35,320. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	2005	Restated 2004	Increase (Decrease)	Percentage Change
	<u>Amount</u>	<u>Amount</u>		
<u>Revenues</u>				
Taxes	\$ 1,055,720	\$ 1,046,401	\$ 9,319	0.89 %
Tuition	622,255	459,680	162,575	35.37 %
Earnings on investments	10,536	5,277	5,259	99.66 %
Intergovernmental	3,586,290	3,706,338	(120,048)	(3.24) %
Other revenues	<u>77,568</u>	<u>43,096</u>	<u>34,472</u>	79.99 %
Total	<u>\$ 5,352,369</u>	<u>\$ 5,260,792</u>	<u>\$ 91,577</u>	1.74 %
<u>Expenditures</u>				
Instruction	\$ 3,759,368	\$ 3,367,360	\$ 392,008	11.64 %
Support services	1,347,405	1,569,155	(221,750)	(14.13) %
Extracurricular activities	147,485	141,415	6,070	4.29 %
Capital outlay	-	91,343	(91,343)	(100.00) %
Debt service	<u>133,431</u>	<u>91,802</u>	<u>41,629</u>	45.35 %
Total	<u>\$ 5,387,689</u>	<u>\$ 5,261,075</u>	<u>\$ 126,614</u>	2.41 %

Classroom Facilities Fund

The District's classroom facilities fund had no revenues and \$60,068 in expenditures. During fiscal year 2005, the classroom facilities fund's fund balance decreased \$60,068 from \$310,251 to \$250,183.

Emergency Levy Fund

The District's emergency levy fund had \$205,853 in revenues and \$205,898 in expenditures. During fiscal year 2005, the emergency levy fund's fund balance decreased \$45 from \$45 to \$0.

General Fund Budgeting Highlights

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

During the course of fiscal 2005, the District amended its general fund budget several times. For the general fund, original budgeted revenues and other financing sources were \$5,480,000 and final budgeted revenues and other financing sources were \$5,401,234. Actual revenues and other financing sources for fiscal 2005 were \$5,367,242, which was \$33,992 less than the final budget appropriations.

General fund original appropriations (appropriated expenditures including other financing uses) of \$5,411,867 were decreased to \$5,371,550 in the final appropriations. The actual budget basis expenditures for fiscal year 2005 totaled \$5,371,550, which was equal to the final budget appropriations.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2005, the District had \$17,798,190 invested in land, land improvements, buildings and improvements, furniture and equipment and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal 2005 balances compared to 2004:

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

	Governmental Activities	
	2005	2004
Land	\$ 311,600	\$ 311,600
Land improvements	428,675	453,349
Building and improvements	16,703,688	17,297,419
Furniture and equipment	328,094	402,648
Vehicles	26,133	33,600
Total	\$ 17,798,190	\$ 18,498,616

The overall decrease in capital assets of \$700,426 is due to depreciation expense of \$700,426 in the fiscal year.

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

Debt Administration

At June 30, 2005, the District had \$1,686,135 in general obligation bonds outstanding. Of this total, \$65,000 is due within one year and \$1,621,135 is due within greater than one year. The following table summarizes the bonds and loans outstanding.

Outstanding Debt, at Year End

	Governmental Activities	Governmental Activities
	2005	2004
General obligation bonds	\$ 1,686,135	\$ 1,744,720
Total	\$ 1,686,135	\$ 1,744,720

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

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Current Financial Related Activities

The District has one of the smallest tax bases of all the school districts in Ohio. Our small size means that over 75% of our revenue comes from the State Foundation's program. This Foundation program is unconstitutional and grossly under funded. The District has also experienced declining enrollment over the past five years, further lowering state support. Also, during this five-year period, the District completed a \$20,000,000 Ohio School Facilities Commission project. Although the state paid 88%, related costs not covered by the grant were absorbed by the District's general fund and erased all our reserves. In fact, the District had to float a tax anticipation note for \$200,000 in June 2003 from our emergency levy renewal to remain solvent. However, the District has met these challenges and I can report that the District is financially stable.

The District met these challenges by implementing an open enrollment policy allowing students from all other school districts to attend McDonald Local Schools, effective September 2003. Under this policy, all state funding follows the student to the District. With this policy in place, we have increased participation from 90 students in 2003-2004 school to 150 students this year. This policy has successfully filled our revenue shortfalls. These new students were served by existing staff members, so there was little or no additional cost associated with attendance. With the fact that, because of limited space, we had to deny applications for over 300 students since the policy was implemented, we anticipate this revenue stream will be strong for the foreseeable future.

The biggest challenge the District faces in the future is the continuing saga with state school funding. As the state continues to give insufficient funding to its school districts, its solutions to the problem only seem to make the problem worse. Our personal property tax base is under attack by the governor and state legislature. A larger percentage of an already inadequate state funding level is being taken from public schools and given to charter schools. Unfortunately, as we wait for a solution to these problems, we must continue to prepare for further such erosions of our state revenue base.

McDonald has, in the past, and will in the future, met these challenges. Although our small size can be seen as a weakness, we have the total support of our community. We have only failed one levy in the District's 86-year history and have not asked for a new operating levy in nine years. Although challenges exist, the future is stable for McDonald Local Schools.

Contacting the District's Financial Management

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

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

STATEMENT OF NET ASSETS
JUNE 30, 2005

	<u>Governmental Activities</u>
Assets:	
Equity in pooled cash and cash equivalents. . .	\$ 275,329
Receivables:	
Taxes	1,639,103
Materials and supplies inventory	150
Capital assets:	
Land	311,600
Depreciable capital assets, net	17,486,590
Capital assets, net.	<u>17,798,190</u>
 Total assets.	 <u>19,712,772</u>
Liabilities:	
Accounts payable.	1,293
Accrued wages and benefits	470,184
Pension obligation payable.	127,283
Intergovernmental payable	40,224
Deferred revenue	1,487,784
Accrued interest payable	17,430
Long-term liabilities:	
Due within one year.	204,364
Due within more than one year	2,298,803
 Total liabilities	 <u>4,647,365</u>
Net Assets:	
Invested in capital assets, net of related debt.	15,745,041
Restricted for:	
Capital projects	257,453
Debt service.	754
State funded programs	2,925
Student activities	6,172
Other purposes	94,145
Unrestricted (deficit)	<u>(1,041,083)</u>
 Total net assets	 <u>\$ 15,065,407</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets
Expenses		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental activities:					
Instruction:					
Regular	\$ 4,189,813	\$ 638,375	\$ 55,203	\$ 32,088	\$ (3,464,147)
Special	589,268	-	183,120	-	(406,148)
Vocational	91,500	-	-	-	(91,500)
Support services:					
Pupil	162,617	-	-	-	(162,617)
Instructional staff	99,069	-	-	-	(99,069)
Board of education	43,178	-	-	-	(43,178)
Administration	508,852	-	5,000	-	(503,852)
Fiscal	208,554	-	384	419	(207,751)
Operations and maintenance	523,783	-	22,455	2,281	(499,047)
Pupil transportation	100,960	-	-	-	(100,960)
Central	2,458	-	-	-	(2,458)
Food service operations	148,632	54,612	86,159	-	(7,861)
Extracurricular activities	226,880	126,037	-	-	(100,843)
Interest and fiscal charges	170,744	-	-	-	(170,744)
Total governmental activities	<u>\$ 7,066,308</u>	<u>\$ 819,024</u>	<u>\$ 352,321</u>	<u>\$ 34,788</u>	<u>(5,860,175)</u>
 General Revenues:					
Property taxes levied for:					
General purposes					1,054,670
Special revenue					200,776
Debt service					150,247
Capital projects					56,128
Grants and entitlements not restricted					
to specific programs					3,605,757
Investment earnings					10,536
Miscellaneous					91,644
Total general revenues					<u>5,169,758</u>
Change in net assets					(690,417)
Net assets at beginning of year					<u>15,755,824</u>
Net assets at end of year					<u>\$ 15,065,407</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005

	<u>General</u>	<u>Classroom Facilities</u>	<u>Emergency Levy</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:					
Equity in pooled cash and cash equivalents	\$ -	\$ 250,183	\$ -	\$ 20,716	\$ 270,899
Receivables:					
Taxes	1,200,275	-	196,686	242,142	1,639,103
Due from other funds.	4	-	-	-	4
Materials and supplies inventory	-	-	-	150	150
Restricted assets:					
Equity in pooled cash and cash equivalents	4,430	-	-	-	4,430
Total assets	<u>\$ 1,204,709</u>	<u>\$ 250,183</u>	<u>\$ 196,686</u>	<u>\$ 263,008</u>	<u>\$ 1,914,586</u>
Liabilities:					
Accounts payable	\$ 1,138	\$ -	\$ -	\$ 155	\$ 1,293
Accrued wages and benefits	466,258	-	-	3,926	470,184
Pension obligation payable.	125,264	-	-	2,019	127,283
Intergovernmental payable.	39,468	-	-	756	40,224
Due to other funds.	-	-	-	4	4
Deferred revenue.	1,195,716	-	196,686	242,142	1,634,544
Total liabilities	<u>1,827,844</u>	<u>-</u>	<u>196,686</u>	<u>249,002</u>	<u>2,273,532</u>
Fund Balances:					
Reserved for encumbrances	874	-	-	-	874
Reserved for materials and supplies inventory.	-	-	-	150	150
Reserved for debt service	-	-	-	2,025	2,025
Reserved for property tax unavailable for appropriation	4,559	-	-	-	4,559
Reserved for school bus purchases.	991	-	-	-	991
Reserved for capital acquisition	93,152	-	-	-	93,152
Unreserved, undesignated (deficit), reported in:					
General fund	(722,711)	-	-	-	(722,711)
Special revenue funds.	-	-	-	11,831	11,831
Capital projects funds.	-	250,183	-	-	250,183
Total fund balances (deficit)	<u>(623,135)</u>	<u>250,183</u>	<u>-</u>	<u>14,006</u>	<u>(358,946)</u>
Total liabilities and fund balances	<u>\$ 1,204,709</u>	<u>\$ 250,183</u>	<u>\$ 196,686</u>	<u>\$ 263,008</u>	<u>\$ 1,914,586</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2005

Total governmental fund balances (deficit)		\$ (358,946)
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		17,798,190
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Taxes	\$ 146,760	
Total		146,760
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.		(17,430)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
Compensated absences	427,883	
Capital lease obligation	72,540	
Lease purchase agreement #1	246,284	
Lease purchase agreement #2	70,325	
General obligation bonds payable	1,686,135	
Total		(2,503,167)
Net assets of governmental activities		\$ 15,065,407

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	<u>General</u>	<u>Classroom Facilities</u>	<u>Emergency Levy</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:					
From local sources:					
Taxes	\$ 1,055,720	\$ -	\$ 181,928	\$ 228,857	\$ 1,466,505
Tuition.	622,255	-	-	-	622,255
Earnings on investments.	10,536	-	-	-	10,536
Charges for services.	-	-	-	54,612	54,612
Extracurricular.	-	-	-	126,037	126,037
Classroom materials and fees	16,120	-	-	-	16,120
Other local revenues.	61,448	-	-	30,196	91,644
Intergovernmental - State.	3,586,290	-	23,925	50,162	3,660,377
Intergovernmental - Federal	-	-	-	332,489	332,489
Total revenue	<u>5,352,369</u>	<u>-</u>	<u>205,853</u>	<u>822,353</u>	<u>6,380,575</u>
Expenditures:					
Current:					
Instruction:					
Regular	3,281,110	-	-	155,457	3,436,567
Special.	386,758	-	32,925	166,444	586,127
Vocational.	91,500	-	-	-	91,500
Support services:					
Pupil.	160,055	-	-	-	160,055
Instructional staff	99,069	-	-	-	99,069
Board of education	39,690	-	-	-	39,690
Administration.	433,704	-	-	47,769	481,473
Fiscal	203,430	-	2,973	1,278	207,681
Operations and maintenance.	318,404	-	170,000	29,033	517,437
Pupil transportation	93,053	-	-	-	93,053
Food service operations	-	-	-	145,115	145,115
Extracurricular activities.	147,485	-	-	78,873	226,358
Facilities acquisition and construction	-	60,068	-	-	60,068
Debt service:					
Principal retirement	119,110	-	-	65,000	184,110
Interest and fiscal charges	14,321	-	-	141,495	155,816
Total expenditures	<u>5,387,689</u>	<u>60,068</u>	<u>205,898</u>	<u>830,464</u>	<u>6,484,119</u>
Excess of revenues under expenditures	<u>(35,320)</u>	<u>(60,068)</u>	<u>(45)</u>	<u>(8,111)</u>	<u>(103,544)</u>
Other financing sources (uses):					
Transfers in	-	-	-	9,065	9,065
Transfers (out).	<u>(9,065)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(9,065)</u>
Total other financing sources (uses)	<u>(9,065)</u>	<u>-</u>	<u>-</u>	<u>9,065</u>	<u>-</u>
Net change in fund balances	(44,385)	(60,068)	(45)	954	(103,544)
Fund balances (deficit) at beginning of year (restated)	<u>(578,750)</u>	<u>310,251</u>	<u>45</u>	<u>13,052</u>	<u>(255,402)</u>
Fund balances (deficit) at end of year	<u>\$ (623,135)</u>	<u>\$ 250,183</u>	<u>\$ -</u>	<u>\$ 14,006</u>	<u>\$ (358,946)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

Net change in fund balances - total governmental funds	\$	(103,544)
 <i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense (\$700,426) exceeds capital outlay (\$0) in the current period.		(700,426)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(4,684)
Repayment of bond and lease purchase principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets.		184,110
Governmental funds report expenditures for interest when it is due. In the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported in the statement of activities is due to the accrued interest on bonds and additional accumulated accreted interest on the capital appreciation bonds.		(14,928)
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.		(50,945)
Change in net assets of governmental activities	\$	<u>(690,417)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Taxes	\$ 1,093,086	\$ 1,077,375	\$ 1,070,595	\$ (6,780)
Tuition.	635,328	626,196	622,255	(3,941)
Earnings on investments.	10,758	10,603	10,536	(67)
Classroom materials and fees	16,459	16,222	16,120	(102)
Other local revenues	10,100	9,955	9,890	(65)
Intergovernmental - State	<u>3,661,630</u>	<u>3,609,001</u>	<u>3,586,290</u>	<u>(22,711)</u>
Total revenue	<u>5,427,361</u>	<u>5,349,352</u>	<u>5,315,686</u>	<u>(33,666)</u>
Expenditures:				
Current:				
Instruction:				
Regular	3,098,745	3,265,592	3,265,592	-
Special.	526,054	415,402	415,402	-
Vocational.	60,167	63,989	63,989	-
Support services:				
Pupil.	135,935	159,483	159,483	-
Instructional staff	87,158	97,014	97,014	-
Board of education	41,467	38,221	38,221	-
Administration.	449,729	458,931	458,931	-
Fiscal	183,392	203,679	203,679	-
Operations and maintenance.	597,854	420,630	420,630	-
Pupil transportation	83,671	93,218	93,218	-
Extracurricular activities.	<u>132,695</u>	<u>146,323</u>	<u>146,323</u>	<u>-</u>
Total expenditures	<u>5,396,867</u>	<u>5,362,482</u>	<u>5,362,482</u>	<u>-</u>
Excess of revenues over (under) expenditures.	<u>30,494</u>	<u>(13,130)</u>	<u>(46,796)</u>	<u>(33,666)</u>
Other financing sources (uses):				
Refund of prior year expenditure.	52,639	51,882	51,556	(326)
Transfers (out)	<u>(15,000)</u>	<u>(9,068)</u>	<u>(9,068)</u>	<u>-</u>
Total other financing sources (uses)	<u>37,639</u>	<u>42,814</u>	<u>42,488</u>	<u>(326)</u>
Net change in fund balance	68,133	29,684	(4,308)	(33,992)
Fund balance at beginning of year.	2,577	2,577	2,577	-
Prior year encumbrances appropriated	<u>4,153</u>	<u>4,153</u>	<u>4,153</u>	<u>-</u>
Fund balance at end of year	<u>\$ 74,863</u>	<u>\$ 36,414</u>	<u>\$ 2,422</u>	<u>\$ (33,992)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
EMERGENCY LEVY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Taxes	\$ 181,928	\$ 181,928	\$ 181,928	\$ -
Intergovernmental - State	23,925	23,925	23,925	-
Total revenue	<u>205,853</u>	<u>205,853</u>	<u>205,853</u>	<u>-</u>
Expenditures:				
Current:				
Instruction:				
Special.	32,925	32,925	32,925	-
Support services:				
Fiscal	2,973	2,973	2,973	-
Operations and maintenance.	170,000	170,000	170,000	-
Total expenditures	<u>205,898</u>	<u>205,898</u>	<u>205,898</u>	<u>-</u>
Net change in fund balance	(45)	(45)	(45)	-
Fund balance at beginning of year.	45	45	45	-
Prior year encumbrances appropriated	-	-	-	-
Fund balance at end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2005

	Private-Purpose Trust	
	Scholarship	Agency
Assets:		
Equity in pooled cash and cash equivalents	\$ 7,195	\$ 31,434
Total assets.	7,195	\$ 31,434
Liabilities:		
Due to students	-	\$ 31,434
Total liabilities	-	\$ 31,434
Net Assets:		
Held in trust for scholarships	7,195	
Total net assets	\$ 7,195	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	Private-Purpose Trust
	Scholarship
Additions:	
Gifts and contributions.	\$ 3,000
Total additions.	3,000
Deductions:	
Scholarships awarded	55,301
Change in net assets	(52,301)
Net assets at beginning of year	59,496
Net assets at end of year	\$ 7,195

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

The McDonald Local School District (the "District") is organized under Section 2 and 3, Article VI of the Constitution of the State of Ohio to provide educational services to students and other community members of the District. Under such laws there is no authority for a school district to have a charter or adopt local laws. The legislative power of the school district is vested in the Board of Education, consisting of five members elected at large for staggered four year terms by the citizens of the District.

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

The District is the 525th largest in the State of Ohio (among 614 public school districts in the state) in terms of enrollment. It currently operates one elementary school and one comprehensive middle/high school. The District is staffed by 17 non-certified and 57 certificated personnel to provide services to approximately 879 students and other community members.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

JOINTLY GOVERNED ORGANIZATIONS

Northeast Ohio Management Information Network (NEOMIN)

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

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

North East Ohio Instructional Media Center (NEOIMC)

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

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

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

PUBLIC ENTITY RISK POOL

Ohio School Boards Association Workers' Compensation Group Rating Plan

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

B. Fund Accounting

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

GOVERNMENTAL FUNDS

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

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

Classroom Facilities - The classroom facilities capital projects fund is used to account for monies received and expended in connection with contracts entered into by the District and the Ohio Department of Education for the building and equipping of classroom facilities.

Emergency Levy - The emergency levy special revenue fund is used to account for monies received and expended in connection with the emergency levy of the District.

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

PROPRIETARY FUNDS

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

FIDUCIARY FUNDS

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

C. Basis of Presentation and Measurement Focus

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

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

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

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

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

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

D. Basis of Accounting

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

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

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

Deferred Revenue - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of June 30, 2005, but which were levied to finance fiscal year 2006 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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

E. Budgets

The District is required by state statute to adopt an annual appropriated cash basis budget for all funds. The specific timetable for fiscal year 2005 is as follows:

1. Prior to January 15 of the preceding year, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The expressed purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the board-adopted budget is filed with the Trumbull County Budget Commission for tax rate determination.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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

3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The budget figures, as shown in the accompanying budgetary statements, reflect the amounts set forth in the original and final Amended Certificate issued for fiscal year 2005.
4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. State statute permits a temporary appropriation to be effective until no later than October 1 of each year. Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals.
5. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education.
6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions. All funds completed the year within the amount of their legally authorized cash basis appropriation.
7. Appropriations amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations, which either reallocated or increased the original appropriated amounts. All supplemental appropriations were legally enacted by the Board prior to June 30, 2005, however, none of these amendments were significant. The budget figures, as shown in the accompanying budgetary statements, reflect the original and final appropriation amounts including all amendments and modifications.
8. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the fund level.

F. Cash and Investments

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

During fiscal year 2005, investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio) and a repurchase agreement. Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements are reported at cost.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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

The District has invested funds in STAR Ohio during fiscal 2005. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2005.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. By policy of the Board of Education, investment earnings are assigned to the general fund and the classroom facilities fund. Interest revenue credited to the general fund during fiscal year 2005 amounted to \$10,536 which includes \$10,393 assigned from other funds.

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

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

G. Inventory

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

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

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

H. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and deletions during the year. Donated capital assets are recorded at their fair market values as of the date received. During fiscal year 2005, the District maintained a capitalization threshold of \$5,000. Improvements are capitalized the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. The District does not possess infrastructure.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

All reported capital assets except land and construction in progress 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>	Governmental Activities <u>Estimated Lives</u>
Land improvements	5 - 20 years
Buildings and improvements	20 - 50 years
Furniture and equipment	5 - 20 years
Vehicles	5 - 10 years

I. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund receivables/payables.” These amounts are eliminated in the governmental activities column on the Statement of Net Assets.

J. Compensated Absences

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

In accordance with the provisions of GASB Statement No. 16, “Accounting for Compensated Absences”, a liability for vacation leave is accrued if a) the employees’ rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2005, by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees with at least five years of service were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and severance payments has been calculated using pay rates in effect at June 30, 2005, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

K. Accrued Liabilities and Long-Term Obligations

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

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

L. Fund Balance Reserves

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

M. Net Assets

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

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

N. Prepayments

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

O. Estimates

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

P. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents set-aside to establish a textbook reserve and capital acquisition reserve. These reserves are required by state statute. A schedule of statutory reserves is presented in Note 17.

Q. Interfund Activity

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

R. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2005.

NOTE 3 - ACCOUNTABILITY & COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2005, the District has implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures" and GASB Technical Bulletin 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers".

GASB Statement No. 40 establishes and modified disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk) and interest rate risk. This statement also establishes and modified disclosure requirements for custodial credit risk on deposits.

GASB Technical Bulletin No. 2004-2 addresses the amount that should be recognized as expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other postemployment benefit (OPEB) plans.

The implementation of GASB Statement No. 40 did not have an effect on the financial statements of the District, however additional note disclosure can be found in Note 4. The implementation of GASB Technical Bulletin No. 2004-2 had the following effect on the fund balances of the major and non-major funds of the District as they were previously reported as of June 30, 2004:

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 3 - ACCOUNTABILITY & COMPLIANCE - (Continued)

	<u>General</u>	<u>Classroom Facilities</u>	<u>Emergency Levy</u>	<u>Nonmajor</u>	<u>Total</u>
Fund Balances, June 30, 2004	\$ (546,718)	\$ 310,251	\$ 45	\$ 15,911	\$(220,511)
GASB Technical Bulletin No. 2004-2	<u>(32,032)</u>	<u>-</u>	<u>-</u>	<u>(2,859)</u>	<u>(34,891)</u>
Restated Fund Balances, June 30, 2004	<u>\$ (578,750)</u>	<u>\$ 310,251</u>	<u>\$ 45</u>	<u>\$ 13,052</u>	<u>\$(255,402)</u>

B. Deficit Fund Balances

Fund balances at June 30, 2005 included the following individual fund deficits:

	<u>Deficit</u>
<u>Major Fund</u>	
General	\$ (623,135)
<u>Nonmajor Funds</u>	
Food service	(6,074)
Disadvantaged Pupil Impact Aid	(63)
Summer Intervention	(149)
Title I	(106)
Title VI	(11)
Title II-A	(153)

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

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

A. Cash on Hand

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

B. Deposits with Financial Institutions

At June 30, 2005, the carrying amount of all District deposits was a deficit \$30,040, exclusive of the \$330,447 repurchase agreement included in investments below. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2005, the District's entire bank balance of \$14,906 was covered by the Federal Deposit Insurance Corporation.

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

C. Investments

As of June 30, 2005, the District had the following investments and maturities:

<u>Investment type</u>	<u>Balance at Fair Value</u>	<u>Investment Maturities 6 months or less</u>
Repurchase Agreement	\$ 330,447	\$ 330,447
STAR Ohio	13,351	13,351
	<u>\$ 343,798</u>	<u>\$ 343,798</u>

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the District's investment policy limits investment portfolio maturities to five years or less.

Credit Risk: The District's investments, except for the repurchase agreement as discussed above and STAR Ohio, were rated AAA and Aaa by Standard & Poor's and Moody's Investor Services, respectively. Standard & Poor's has assigned STAR Ohio a AAAm money market rating.

Concentration of Credit Risk: The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2005:

<u>Investment type</u>	<u>Fair Value</u>	<u>% to Total</u>
Repurchase Agreement	\$ 330,447	96.12
STAR Ohio	<u>13,351</u>	<u>3.88</u>
	<u>\$ 343,798</u>	<u>100.00</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2005:

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ (30,040)
Investments	343,798
Cash on hand	<u>200</u>
Total	<u>\$ 313,958</u>
 <u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 275,329
Private-purpose trust funds	7,195
Agency funds	<u>31,434</u>
Total	<u>\$ 313,958</u>

NOTE 5 - INTERFUND TRANSACTIONS

A. Transfers

Interfund transfers for the year ended June 30, 2005 consisted of the following, as reported on the fund financial statements:

<u>Transfers from General fund to:</u>	
Nonmajor Governmental funds	\$ 9,065

B. Due From/To Other Funds

Due from/to other funds for the year ended June 30, 2005 consisted of the following, as reported on the fund financial statements:

<u>Due from other funds</u>	<u>Due to other funds</u>	<u>Amount</u>
General	Nonmajor governmental funds	\$ 4

The purpose of these interfund transactions is to eliminate negative cash balances in certain nonmajor governmental funds.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2005 represents collections of calendar year 2004 taxes. Real property taxes received in calendar year 2005 were levied after April 1, 2004, on the assessed value listed as of January 1, 2004, the lien date. Assessed values for real property taxes are established by state law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, state statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2005 represents collections of calendar year 2004 taxes. Public utility real and tangible personal property taxes received in calendar year 2004 became a lien December 31, 2003, were levied after April 1, 2004 and are collected in 2005 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2005 (other than public utility property) represents the collection of 2005 taxes. Tangible personal property taxes received in calendar year 2005 were levied after April 1, 2005, on the value as of December 31, 2004. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

The District receives property taxes from Trumbull County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2005, are available to finance fiscal year 2005 operations. The amount available to be advanced can vary based on the date tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2005 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2005 was \$4,559 in the general fund. This amount has been recorded as revenue. The amount available as an advance at June 30, 2004 was \$19,434 in the general fund. On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue, while on a modified accrual basis the revenue has been deferred.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 6 - PROPERTY TAXES - (Continued)

The assessed values upon which the fiscal year 2005 taxes were collected are:

	2004 Second Half Collections		2005 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 46,191,110	90.17	\$ 46,246,100	91.20
Public utility personal	1,891,649	3.69	1,799,660	3.55
Tangible personal property	<u>3,145,529</u>	<u>6.14</u>	<u>2,660,761</u>	<u>5.25</u>
Total	<u>\$ 51,228,288</u>	<u>100.00</u>	<u>\$ 50,706,521</u>	<u>100.00</u>

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

Operations	\$ 48.40		\$ 48.40
Debt Service	3.25		3.40
Permanent Improvement	2.00		2.00

NOTE 7 - RECEIVABLES

Receivables at June 30, 2005 consisted of taxes. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the Statement of Net Assets follows:

Governmental Activities:

Taxes	<u>\$ 1,639,103</u>
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Receivables have been disaggregated on the face of the basic financial statements. All receivables are expected to be collected within the subsequent year.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 8 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2005 was as follows:

	<u>Balance 06/30/04</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 06/30/05</u>
Governmental Activities				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 311,600	\$ -	\$ -	\$ 311,600
Total capital assets, not being depreciated	<u>311,600</u>	<u>-</u>	<u>-</u>	<u>311,600</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	524,008	-	-	524,008
Buildings and improvements	19,922,204	-	-	19,922,204
Furniture and equipment	499,725	-	-	499,725
Vehicles	231,318	-	-	231,318
Total capital assets, being depreciated	<u>21,177,255</u>	<u>-</u>	<u>-</u>	<u>21,177,255</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(70,659)	(24,674)	-	(95,333)
Buildings and improvements	(2,624,785)	(593,731)	-	(3,218,516)
Furniture and equipment	(97,077)	(74,554)	-	(171,631)
Vehicles	(197,718)	(7,467)	-	(205,185)
Total accumulated depreciation	<u>(2,990,239)</u>	<u>(700,426)</u>	<u>-</u>	<u>(3,690,665)</u>
Governmental activities capital assets, net	<u>\$ 18,498,616</u>	<u>\$ (700,426)</u>	<u>\$ -</u>	<u>\$ 17,798,190</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:

Regular \$ 656,849

Support Services:

Board of education 3,309

Administration 23,444

Fiscal 1,114

Operations and maintenance 2,318

Pupil transportation 7,467

Central 2,332

Extracurricular activities 495

Food service operations 3,098

Total depreciation expense \$ 700,426

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 9 - CAPITAL LEASE-LESSEE DISCLOSURE

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

Capital assets consisting of equipment have been capitalized in the amount of \$93,771. This amount represents the present value of the minimum lease payments at the time of acquisition. Accumulated depreciation as of June 30, 2005 was \$18,754 and the book value was \$75,017. A corresponding liability is recorded in the government-wide financial statements. Principal payments in fiscal year 2005 totaled \$21,231. There are no interest payments, as this capital lease is an interest-free lease.

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2005:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2006	\$ 21,231
2007	21,231
2008	21,231
2008	<u>8,847</u>
Total minimum lease payments	72,540
Less: amount representing interest	<u>-</u>
Total	<u>\$ 72,540</u>

NOTE 10 - LEASE PURCHASE AGREEMENT

- A. On June 17, 2003, the District entered into a \$397,530 lease purchase agreement with the Second National Bank of Warren for the expansion of the gymnasium associated with the Construction Project described in Note 11.A. The source of revenue to fund the principal and interest payments is derived from general operating revenues of the District. During fiscal year 2005, the District made \$76,861 in principal payments on the lease purchase agreement.

A liability in the amount of the present value of the minimum lease payments has been recorded in the governmental activities on the statement of net assets. Governmental capital assets have been capitalized as a component of buildings and improvements in the amount of \$397,530. This amount represents the cost of the project funded by the lease purchase agreement incurred as of June 30, 2005.

The following is a schedule of the future lease payments required under the lease purchase agreement as of June 30, 2005.

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 79,421	\$ 6,891	\$ 86,312
2007	82,065	4,247	86,312
2008	<u>84,798</u>	<u>1,514</u>	<u>86,312</u>
Total	<u>\$ 246,284</u>	<u>\$ 12,652</u>	<u>\$ 258,936</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 10 - LEASE PURCHASE AGREEMENT - (Continued)

- B.** On June 30, 2004, the District entered into a \$91,343 lease purchase agreement with the IBM Credit Corporation for IBM computers. The source of revenue to fund the principal and interest payments is derived from general operating revenues of the District. During fiscal year 2005, the District made \$21,018 in principal payments on the lease purchase agreement.

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

The following is a schedule of the future lease payments required under the lease purchase agreement as of June 30, 2005.

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 21,925	\$ 3,962	\$ 25,887
2007	23,409	2,479	25,888
2008	<u>24,991</u>	<u>897</u>	<u>25,888</u>
Total	<u>\$ 70,325</u>	<u>\$ 7,338</u>	<u>\$ 77,663</u>

NOTE 11 - LONG-TERM OBLIGATIONS

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

These bonds represent the amount of the Construction Project that the District itself was required to finance, in accordance with the terms of a facilities grant from the Ohio School Facilities Commission (OSFC). OSFC will make quarterly disbursements to the District as the project is completed. As of June 30, 2005, the total estimated cost of the Construction Project is \$18,659,977, of which OSFC will pay \$14,468,469.

In conjunction with the 3.9 mills which support the bond issue, the District also passed in fiscal 2000 a .5 mill levy to ultimately fund the maintenance costs of the new facilities. Tax revenue from this levy has been reported in the special revenue funds.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

This issue is comprised of both current interest bonds, par value \$2,000,000, and capital appreciation bonds, par value \$170,000. The interest rates on the current interest bonds range from 4.80% to 6.00%. The capital appreciation bonds mature on December 1, 2010 (effective yield to maturity of 37.32%) and December 1, 2011 (effective yield to maturity of 37.32%) at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The present value (as of issue date) at June 30, 2005 was \$4,000. A total of \$22,135 in accreted interest at June 30, 2005. The current interest bonds maturing on or after December 1, 2010 are subject to early redemption at the sole option of the District, at the following redemption prices, plus accrued interest:

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

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

The following is a schedule of activity for fiscal 2005 on the 2001 series general obligation bonds:

	Balance Outstanding <u>06/30/04</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>06/30/05</u>	Amounts Due in <u>One Year</u>
Current interest bonds	\$ 1,725,000	\$ -	\$ (65,000)	\$ 1,660,000	\$ 65,000
Capital appreciation bonds	<u>19,720</u>	<u>6,415</u>	<u>-</u>	<u>26,135</u>	<u>-</u>
Total G.O. bonds	<u>\$ 1,744,720</u>	<u>\$ 6,415</u>	<u>\$ (65,000)</u>	<u>\$ 1,686,135</u>	<u>\$ 65,000</u>

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

<u>Fiscal Year Ending June 30</u>	<u>Current Interest Bonds</u>			<u>Capital Appreciation Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 65,000	\$ 97,333	\$ 162,333	\$ -	\$ -	\$ -
2007	70,000	93,920	163,920	-	-	-
2008	75,000	90,210	165,210	-	-	-
2009	80,000	86,160	166,160	-	-	-
2010	80,000	81,800	161,800	170,000	-	170,000
2011 - 2015	270,000	371,400	641,400	-	-	-
2016 - 2020	580,000	240,000	820,000	-	-	-
2021 - 2023	<u>440,000</u>	<u>52,700</u>	<u>492,700</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 1,660,000</u>	<u>\$ 1,113,523</u>	<u>\$ 2,773,523</u>	<u>\$ 170,000</u>	<u>\$ -</u>	<u>\$ 170,000</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

B. During the year ended June 30, 2005, the following changes occurred in the long-term obligations.

	Balance			Balance	Amounts
	<u>06/30/04</u>	<u>Additions</u>	<u>Reductions</u>	<u>06/30/05</u>	<u>Due in</u>
					<u>One Year</u>
Governmental Activities:					
General obligation bonds	\$ 1,744,720	\$ 6,415	\$ (65,000)	\$ 1,686,135	\$ 65,000
Lease purchase agreements	414,488	-	(97,879)	316,609	101,346
Capital lease obligation	93,771	-	(21,231)	72,540	21,231
Compensated absences	<u>376,938</u>	<u>55,743</u>	<u>(4,798)</u>	<u>427,883</u>	<u>16,787</u>
Total long-term obligations, governmental activities	<u>\$ 2,629,917</u>	<u>\$ 62,158</u>	<u>\$ (188,908)</u>	<u>\$ 2,503,167</u>	<u>\$ 204,364</u>

C. Legal Debt Margin

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

The effects of these debt limitations at June 30, 2005 are a voted debt margin of \$2,879,477 and an unvoted debt margin of \$50,707.

NOTE 12 - RISK MANAGEMENT

A. Comprehensive

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

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

Real property and contents are fully insured. Limits of insurance on real property and equipment are \$14,807,867 with a deductible of \$1,000.

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

Settled claims have not exceeded commercial coverage in any of the past three years. There has been no significant reduction in coverage from fiscal year 2004.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 12 - RISK MANAGEMENT - (Continued)

B. Health Self Insurance

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

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

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

C. Workers' Compensation

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 13 - DEFINED BENEFIT PENSION PLAN

A. School Employees Retirement System

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, or by calling (614) 222-5853.

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2005, 10.57% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09% of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$80,908, \$74,288 and \$69,784, respectively; 42.76% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. \$46,314 represents the unpaid contribution for fiscal year 2005 and is recorded as a liability within the respective funds.

B. State Teachers Retirement System

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371, by calling (614) 227-4090, or by visiting the STRS website at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB Plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 13 - DEFINED BENEFIT PENSION PLAN - (Continued)

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

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal years 2005 and 2004, 13% of annual covered salary was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The District's required contributions for pension obligations to the DB plan for the fiscal years ended June 30, 2005, 2004, and 2003 were \$414,280, \$385,991, and \$381,879, respectively; 83.23% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. \$69,456 represents the unpaid contribution for fiscal year 2005 and is recorded as a liability within the respective funds. Contributions to the DC and Combined Plans for fiscal 2005 were \$24,167 made by the District and \$2,450 made by plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by SERS or the STRS have an option to choose Social Security or the SERS/STRS. As of June 30, 2005, certain members of the Board of Education have elected Social Security. The District's liability is 6.2% of wages paid.

NOTE 14 - POSTEMPLOYMENT BENEFITS

The District provides comprehensive health care benefits to retired teachers and their dependents through STRS, and to retired non-certified employees and their dependents through SERS. Benefits include hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. Benefit provisions and the obligations to contribute are established by STRS and SERS based on authority granted by state statute. Both STRS and SERS are funded on a pay-as-you-go-basis.

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For fiscal year 2005, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund. For the District, this amount equaled \$25,591 during fiscal 2005.

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Health Care Stabilization Fund was \$3.1 billion at June 30, 2004 (the latest information available). For the fiscal year ended June 30, 2004 (the latest information available), net health care costs paid by STRS were \$268.739 million and STRS had 111,853 eligible benefit recipients.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 14 - POSTEMPLOYMENT BENEFITS - (Continued)

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

For fiscal year 2005, employer contributions to fund health care benefits were 3.43% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay has been established at \$27,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150% of annual health care expenses, before premium deduction. Gross expenses for health care at June 30, 2004 (the latest information available) were \$223.444 million and the target level was \$335.2 million. At June 30, 2004, (the latest information available) SERS had net assets available for payment of health care benefits of \$300.8 million and SERS had approximately 62,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$38,915 during the 2005 fiscal year.

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

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

Net Change in Fund Balance

	<u>General Fund</u>	<u>Emergency Levy Fund</u>
Budget basis	\$ (4,308)	\$ (45)
Net adjustment for revenue accruals	36,682	-
Net adjustment for expenditure accruals	(23,194)	-
Net adjustment for other sources/uses	(51,553)	-
Adjustment for encumbrances	(2,012)	-
GAAP basis	\$ (44,385)	\$ (45)

NOTE 16 - CONTINGENCIES

A. Grants

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

B. Litigation

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

C. State School Funding Decision

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the state's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school funding plan is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school funding scheme that is thorough and efficient...". The District is currently unable to determine what effect, if any, this decision will have on its future state funding and its financial operations.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 17 - STATUTORY RESERVES

The District is required by state law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2005, the reserve activity was as follows:

	<u>Textbooks</u>	<u>Capital Maintenance</u>	<u>School Bus Purchases</u>
Set-aside cash balance as of June 30, 2004	\$ (169,085)	\$ -	\$ 991
Current year set-aside requirement	127,151	127,151	-
Qualifying disbursements	<u>(24,254)</u>	<u>(33,999)</u>	<u>-</u>
Total	<u>\$ (66,188)</u>	<u>\$ 93,152</u>	<u>\$ 991</u>
Cash balance carried forward to FY 2006	<u>\$ (66,188)</u>	<u>\$ 93,152</u>	<u>\$ 991</u>
A schedule of the restricted assets at June 30, 2005 follows:			
Amount restricted for capital maintenance	\$ 93,152		
Amounts restricted for school bus purchases	991		
Amount to limit set asides to available cash	<u>(89,713)</u>		
Total restricted assets	<u>\$ 4,430</u>		

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Mary Taylor, CPA

Auditor of State

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

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

To the Board of Education:

We have audited the 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, 2005, which collectively comprise the District's basic financial statements and have issued our report thereon dated June 29, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. In a separate letter to the District's management dated June 29, 2007, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

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 have a directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

McDonald Local School District
Trumbull County
Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Required by *Government Auditing Standards*
Page 2

We intend this report for the information and use of the audit committee, management, and Board of Education. It is not intended for anyone other than these specified parties.

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

Mary Taylor, CPA
Auditor of State

June 29, 2007



Mary Taylor, CPA
Auditor of State

McDONALD LOCAL SCHOOL DISTRICT

TRUMBULL COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
AUGUST 7, 2007**