



Mary Taylor, CPA
Auditor of State

**MCDONALD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Government Wide Financial Statements:	
Statement of Net Assets	13
Statement of Activities.....	14
Fund Financial Statements:	
Balance Sheet –Governmental Funds	15
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities.....	16
Statement of Revenues, Expenditures and Changes in Fund Balances-Governmental Funds.....	17
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	18
Statement of Revenues, Expenditures, and Changes in Fund Balance- Budget (Non-GAAP Basis) and Actual-General Fund	19
Statement of Revenues, Expenditures, and Changes in Fund Balance- Budget (Non-GAAP Basis) and Actual-Emergency Levy Fund	20
Statement of Fiduciary Net Assets-Fiduciary Funds.....	21
Statement of Changes in Fiduciary Net Assets-Fiduciary Funds	22
Notes to the Basic Financial Statements	23
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	53
Schedule of Findings.....	55
Schedule of Prior Audit Findings.....	61
Independent Accountants' Report on Applying Agreed Upon Procedures.....	63

THIS PAGE INTENTIONALLY LEFT BLANK.



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 McDonald Local School District, Trumbull County, Ohio (the District), as of and for the year ended June 30, 2009, 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 McDonald Local School District, Trumbull County, Ohio, as of June 30, 2009, 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.

The accompanying financial statements have been prepared assuming the District will continue as a going concern. As discussed in Note 18 to the financial statements, the District has suffered recurring losses from operations that raise substantial doubt about its ability to continue as a going concern. In addition, the Auditor of State has determined a fiscal emergency exists, and a financial planning and supervision commission has assumed certain management responsibilities for the duration of the emergency pursuant to Chapter 3316 of the Ohio Rev.Code. Note 18 describes management's plans regarding these matters. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

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

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

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

Mary Taylor, CPA
Auditor of State

May 21, 2010

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

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, 2009. 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 2009 are as follows:

- In total, net assets of governmental activities decreased \$1,336,619 which represents a 10.81% decrease from 2008.
- General revenues accounted for \$5,348,479 in revenue or 75.93% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$1,695,051 or 24.07% of total revenues of \$7,043,530.
- The District had \$8,380,149 in expenses related to governmental activities; \$1,695,051 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 \$5,348,479 were not adequate to provide for these programs.
- The District's major governmental funds are the general fund, emergency levy fund and bond retirement fund. The general fund had \$6,069,413 in revenues and \$6,871,759 in expenditures. During fiscal year 2009, the general fund deficit increased \$802,346 from \$1,343,030 to \$2,145,376.
- The emergency levy fund had \$213,274 in revenues and \$179,471 in expenditures. During fiscal year 2009, the emergency levy fund deficit decreased \$33,803 from a deficit of \$197,973 to a deficit of \$164,170.
- The bond retirement fund had \$174,681 in revenues and \$159,455 in expenditures. During fiscal year 2009, the bond retirement fund balance increased \$15,226 from \$29,064 to \$44,290.

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, emergency levy fund and bond retirement funds 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, 2009

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 2009?" 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, emergency levy fund and bond retirement 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, 2009

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 23-51 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 2009 and 2008.

	Net Assets	
	Governmental Activities <u>2009</u>	Governmental Activities <u>2008</u>
<u>Assets</u>		
Current and other assets	\$ 1,415,727	\$ 1,790,272
Capital assets	<u>15,208,691</u>	<u>15,910,891</u>
Total assets	<u>16,624,418</u>	<u>17,701,163</u>
<u>Liabilities</u>		
Current liabilities	3,628,877	3,306,783
Long-term liabilities	<u>1,964,351</u>	<u>2,026,571</u>
Total liabilities	<u>5,593,228</u>	<u>5,333,354</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	13,778,854	14,352,792
Restricted	78,882	51,016
Unrestricted (deficit)	<u>(2,826,546)</u>	<u>(2,035,999)</u>
Total net assets	<u>\$ 11,031,190</u>	<u>\$ 12,367,809</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2009, the District's assets exceeded liabilities by \$11,031,190 compared to \$12,367,809 at June 30, 2008. Of this total at June 30, 2009, \$78,882 is restricted in use.

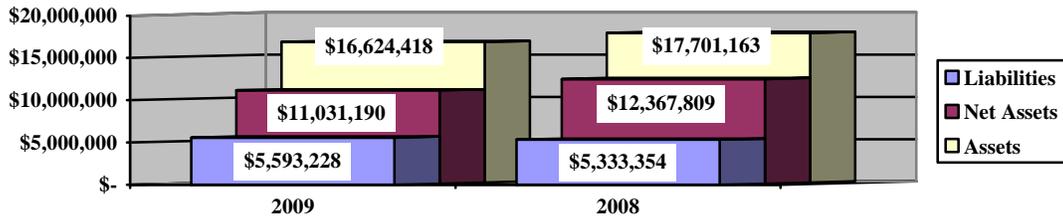
**MCDONALD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

At year-end, capital assets represented 91.48% 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, 2009, were \$13,778,854. 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, \$78,882 represents resources that are subject to external restriction on how they may be used. The remaining deficit of unrestricted net assets is \$2,826,546.

Governmental Activities



The table below shows the change in net assets for fiscal year 2009 and 2008:

Change in Net Assets

	Governmental Activities 2009	Governmental Activities 2008
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 1,169,212	\$ 1,176,830
Operating grants and contributions	525,839	379,644
Capital grants and contributions	-	35,597
General revenues:		
Property taxes	1,467,799	1,501,228
Grants and entitlements	3,866,400	4,024,955
Investment earnings	288	6,337
Other	13,992	30,895
Total revenues	7,043,530	7,155,486

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

Change in Net Assets

	Governmental Activities <u>2009</u>	Governmental Activities <u>2008</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 4,711,028	\$ 4,740,610
Special	750,256	841,450
Vocational	45,879	43,996
Other	-	82,590
Support services:		
Pupil	253,221	159,898
Instructional staff	84,934	61,783
Board of education	53,005	40,640
Administration	558,929	609,057
Fiscal	230,822	217,004
Operations and maintenance	920,369	811,596
Pupil transportation	132,892	137,129
Central	16,408	14,787
Food service operations	130,614	179,499
Operations of non-instructional services	50,816	6,659
Extracurricular activities	295,474	250,540
Interest and fiscal charges	<u>145,502</u>	<u>117,949</u>
Total expenses	<u>8,380,149</u>	<u>8,315,187</u>
Change in net assets	(1,336,619)	(1,159,701)
Net assets at beginning of year	<u>12,367,809</u>	<u>13,527,510</u>
Net assets at end of year	<u><u>\$ 11,031,190</u></u>	<u><u>\$ 12,367,809</u></u>

Governmental Activities

Net assets of the District's governmental activities decreased \$1,336,619 due to the continuing trend of overall expenses outpacing revenues. Total governmental expenses of \$8,380,149 were offset by program revenues of \$1,695,051 and general revenues of \$5,348,479. Program revenues supported 20.23% 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 75.73% of total governmental revenue.

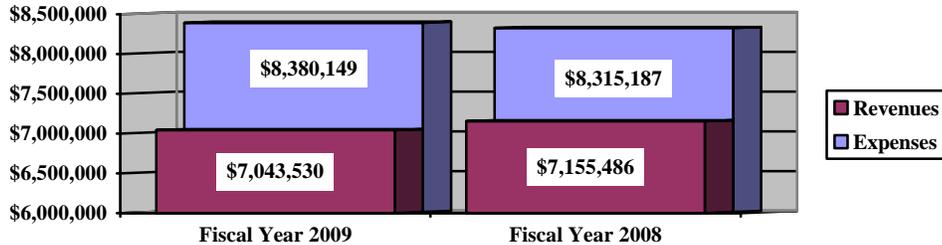
The largest expense of the District is for instructional programs. Instruction expenses totaled \$5,507,163 or 65.72% of total governmental expenses for fiscal 2009.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

The graph below presents the District's governmental activities revenue and expenses for fiscal year 2009 and 2008.

Governmental Activities - Revenues and Expenses



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

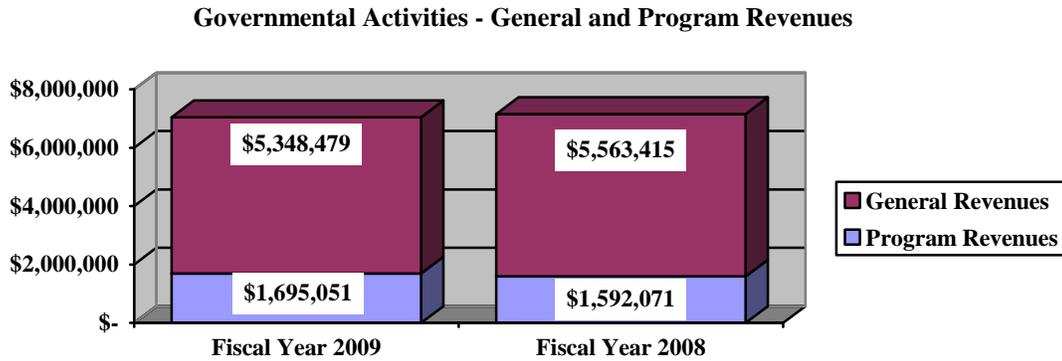
	Total Cost of Services 2009	Net Cost of Services 2009	Total Cost of Services 2008	Net Cost of Services 2008
Program expenses				
Instruction:				
Regular	\$ 4,711,028	\$ 3,713,474	\$ 4,740,610	\$ 3,745,795
Special	750,256	323,116	841,450	638,514
Vocational	45,879	44,986	43,996	43,996
Other	-	-	82,590	(163)
Support services:				
Pupil	253,221	253,221	159,898	159,898
Instructional staff	84,934	84,934	61,783	61,783
Board of education	53,005	53,005	40,640	40,640
Administration	558,929	534,748	609,057	583,769
Fiscal	230,822	230,822	217,004	216,419
Operations and maintenance	920,369	920,369	811,596	770,487
Pupil transportation	132,892	132,892	137,129	137,129
Central	16,408	16,408	14,787	14,787
Food service operations	130,614	14,610	179,499	30,697
Operations of non-instructional services	50,816	301	6,659	6,659
Extracurricular activities	295,474	216,710	250,540	154,757
Interest and fiscal charges	145,502	145,502	117,949	117,949
Total expenses	<u>\$ 8,380,149</u>	<u>\$ 6,685,098</u>	<u>\$ 8,315,187</u>	<u>\$ 6,723,116</u>

The dependence upon tax and other general revenues for governmental activities is apparent, 74.11% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 79.77%. 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, 2009

The graph below presents the District's governmental activities revenue for fiscal year 2009 and 2008.



The District's Funds

The District's governmental funds reported a combined fund deficit balance of \$2,471,650, which is a larger deficit than last year's fund deficit balance of \$1,706,603. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2009 and 2008.

	Fund Balance (Deficit) <u>June 30, 2009</u>	Fund Balance (Deficit) <u>June 30, 2008</u>	Increase (Decrease)	Percentage Change
General	\$(2,145,376)	\$(1,343,030)	\$ (802,346)	(59.74) %
Emergency Levy	(164,170)	(197,973)	33,803	17.07 %
Bond Retirement	44,290	29,064	15,226	52.39 %
Other Governmental	<u>(206,394)</u>	<u>(194,664)</u>	<u>(11,730)</u>	(6.03) %
Total	<u><u>\$(2,471,650)</u></u>	<u><u>\$(1,706,603)</u></u>	<u><u>\$ (765,047)</u></u>	(44.83) %

General Fund

The District's general fund deficit balance increased \$802,346. The increase in fund deficit can be attributed to the continuation of stagnant revenues coupled with increased expenditures. In addition a \$600,000 tax anticipation note has been reported as a liability in the general fund. 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, 2009**

	<u>2009</u> <u>Amount</u>	<u>2008</u> <u>Amount</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>				
Taxes	\$ 1,067,351	\$ 1,101,984	\$ (34,633)	(3.14) %
Tuition	940,474	908,614	31,860	3.51 %
Earnings on investments	288	6,337	(6,049)	(95.46) %
Intergovernmental	4,019,906	4,003,603	16,303	0.41 %
Other revenues	<u>41,394</u>	<u>50,484</u>	<u>(9,090)</u>	(18.01) %
Total	<u>\$ 6,069,413</u>	<u>\$ 6,071,022</u>	<u>\$ (1,609)</u>	(0.03) %
<u>Expenditures</u>				
Instruction	\$ 4,662,823	\$ 4,560,848	\$ 101,975	2.24 %
Support services	1,944,429	1,699,550	244,879	14.41 %
Extracurricular activities	211,807	171,580	40,227	23.45 %
Capital outlay	-	116,580	(116,580)	(100.00) %
Debt service	<u>52,700</u>	<u>151,378</u>	<u>(98,678)</u>	(65.19) %
Total	<u>\$ 6,871,759</u>	<u>\$ 6,699,936</u>	<u>\$ 171,823</u>	2.56 %

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 2009, the District did not amend its general fund budget. For the general fund, original budgeted revenues and other financing sources were \$6,370,825 and final budgeted revenues and other financing sources were the same. Actual revenues and other financing sources for fiscal 2009 were \$6,078,627, which was \$292,198 less than the final budgeted revenues.

General fund original appropriations (appropriated expenditures including other financing uses) of \$5,990,101 were left the same in the final appropriations. The actual budget basis expenditures for fiscal year 2009 totaled \$6,533,240, which was \$543,139 more than the final budget appropriations.

Emergency Levy Fund

The emergency levy fund had \$213,274 in revenues and \$179,471 in expenditures. During fiscal year 2009, the emergency levy fund deficit decreased \$33,803 from a deficit of \$197,973 to a deficit of \$164,170.

Bond Retirement Fund

The bond retirement fund had \$174,681 in revenues and \$159,455 in expenditures. During fiscal year 2009, the bond retirement fund balance increased \$15,226 from \$29,064 to \$44,290.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2009, the District had \$15,208,691 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 2009 balances compared to 2008:

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

	Governmental Activities	
	2009	2008
Land	\$ 311,600	\$ 311,600
Land improvements	345,683	371,230
Building and improvements	14,328,764	14,922,495
Furniture and equipment	222,644	301,834
Vehicles	-	3,732
Total	<u>\$ 15,208,691</u>	<u>\$ 15,910,891</u>

The overall decrease in capital assets of \$702,200 is due to depreciation expense of \$702,200 in the fiscal year. The District had no additions or disposals during fiscal year 2009.

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

Debt Administration

At June 30, 2009, the District had \$1,511,737 in general obligation bonds and capital lease obligations outstanding. Of this total, \$130,144 is due within one year and \$1,381,593 is due within greater than one year. The following table summarizes the bonds and capital leases outstanding.

Outstanding Debt, at Year End

	Governmental Activities	Governmental Activities
	2009	2008
General obligation bonds	\$ 1,436,446	\$ 1,501,213
Capital lease obligation	75,291	95,531
Total	<u>\$ 1,511,737</u>	<u>\$ 1,596,744</u>

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, 2009**

Current Financial Related Activities

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

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

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

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

Contacting the District's Financial Management

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

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

STATEMENT OF NET ASSETS
JUNE 30, 2009

	<u>Governmental Activities</u>
Assets:	
Receivables:	
Taxes	\$ 1,370,453
Accounts	1,186
Materials and supplies inventory	1,561
Unamortized bond issue costs	42,527
Capital assets:	
Land	311,600
Depreciable capital assets, net	14,897,091
Capital assets, net.	<u>15,208,691</u>
 Total assets.	 <u>16,624,418</u>
Liabilities:	
Accounts payable.	286,658
Accrued wages and benefits	1,015,822
Pension obligation payable.	141,000
Intergovernmental payable	67,636
Unearned revenue	1,211,366
Accrued interest payable	45,739
Notes payable.	850,000
Loans payable	10,656
Long-term liabilities:	
Due within one year.	223,849
Due within more than one year	1,740,502
Total liabilities	<u>5,593,228</u>
Net Assets:	
Invested in capital assets, net of related debt.	13,778,854
Restricted for:	
Debt service.	49,843
State funded	11,000
Student activities	7,303
Other purposes	10,736
Unrestricted (deficit)	<u>(2,826,546)</u>
Total net assets	<u><u>\$ 11,031,190</u></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, 2009

		Program Revenues		Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental activities:				
Instruction:				
Regular	\$ 4,711,028	\$ 967,876	\$ 29,678	\$ (3,713,474)
Special	750,256	-	427,140	(323,116)
Vocational	45,879	-	893	(44,986)
Support services:				
Pupil	253,221	-	-	(253,221)
Instructional staff	84,934	-	-	(84,934)
Board of education	53,005	-	-	(53,005)
Administration.	558,929	13,181	11,000	(534,748)
Fiscal.	230,822	-	-	(230,822)
Operations and maintenance	920,369	-	-	(920,369)
Pupil transportation.	132,892	-	-	(132,892)
Central	16,408	-	-	(16,408)
Operation of non-instructional services:				
Food service operations	130,614	58,876	57,128	(14,610)
Other non-instructional services	50,816	50,515	-	(301)
Extracurricular activities.	295,474	78,764	-	(216,710)
Interest and fiscal charges	145,502	-	-	(145,502)
Total governmental activities	\$ 8,380,149	\$ 1,169,212	\$ 525,839	(6,685,098)
 General Revenues:				
Property taxes levied for:				
General purposes				1,066,146
Special revenue				201,422
Debt service.				150,153
Capital projects				50,078
Grants and entitlements not restricted to specific programs.				
Investment earnings				3,866,400
Miscellaneous				288
				13,992
Total general revenues.				5,348,479
Change in net assets				(1,336,619)
Net assets at beginning of year.				12,367,809
Net assets at end of year				\$ 11,031,190

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2009

	<u>General</u>	<u>Emergency Levy</u>	<u>Bond Retirement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:					
Receivables:					
Taxes	\$ 1,006,571	\$ 156,574	\$ 137,608	\$ 69,700	\$ 1,370,453
Accounts	1,186	-	-	-	1,186
Due from other funds.	-	-	43,902	38,081	81,983
Materials and supplies inventory	-	-	-	1,561	1,561
Total assets	<u>\$ 1,007,757</u>	<u>\$ 156,574</u>	<u>\$ 181,510</u>	<u>\$ 109,342</u>	<u>\$ 1,455,183</u>
Liabilities:					
Accounts payable	\$ 215,309	\$ -	\$ -	\$ 71,349	\$ 286,658
Accrued wages and benefits	981,645	-	-	34,177	1,015,822
Compensated absences payable	70,785	-	-	-	70,785
Pension obligation payable.	138,328	-	-	2,672	141,000
Intergovernmental payable.	63,239	-	-	4,397	67,636
Due to other funds.	51,596	-	-	30,387	81,983
Deferred revenue.	114,007	17,734	15,586	7,894	155,221
Unearned revenue	889,724	138,398	121,634	61,610	1,211,366
Accrued interest payable.	28,500	4,612	-	2,594	35,706
Notes payable	600,000	160,000	-	90,000	850,000
Loans payable	-	-	-	10,656	10,656
Total liabilities	<u>3,153,133</u>	<u>320,744</u>	<u>137,220</u>	<u>315,736</u>	<u>3,926,833</u>
Fund Balances:					
Reserved for encumbrances	57,342	-	-	15,166	72,508
Reserved for materials and supplies inventory.	-	-	-	1,561	1,561
Reserved for debt service	-	-	43,902	-	43,902
Reserved for property tax unavailable for appropriation	2,840	442	388	196	3,866
Reserved for school bus purchases.	991	-	-	-	991
Reserved for instructional materials	9,745	-	-	-	9,745
Unreserved, undesignated (deficit), reported in:					
General fund	(2,216,294)	-	-	-	(2,216,294)
Special revenue funds.	-	(164,612)	-	(81,327)	(245,939)
Capital projects funds.	-	-	-	(141,990)	(141,990)
Total fund balances (deficit)	<u>(2,145,376)</u>	<u>(164,170)</u>	<u>44,290</u>	<u>(206,394)</u>	<u>(2,471,650)</u>
Total liabilities and fund balances	<u>\$ 1,007,757</u>	<u>\$ 156,574</u>	<u>\$ 181,510</u>	<u>\$ 109,342</u>	<u>\$ 1,455,183</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, 2009

Total governmental fund balances (deficit)		\$ (2,471,650)
<i>Amounts reported for governmental activities on 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.		15,208,691
Other long-term assets, such as taxes receivable, are not available to pay for current-period expenditures and therefore are deferred in the funds.		155,221
Unamortized bond issuance costs are not recognized in the funds governmental activities on the statement of net assets.		42,527
Unamortized premiums on bond issuance is not recognized in the funds.		(115,591)
Unamortized deferred charges on refundings are not recognized in the funds.		75,042
Accrued interest payable is not due and payable in the current period and is therefore not reported in the funds.		(10,033)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
General obligation bonds payable	\$ 1,436,446	
Capital lease obligation	75,291	
Compensated absences	341,280	
Total		(1,853,017)
Net assets of governmental activities		\$ 11,031,190

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, 2009

	<u>General</u>	<u>Emergency Levy</u>	<u>Bond Retirement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:					
From local sources:					
Taxes	\$ 1,067,351	\$ 182,311	\$ 148,924	\$ 68,868	\$ 1,467,454
Tuition.	940,474	-	-	-	940,474
Earnings on investments.	288	-	-	-	288
Charges for services.	-	-	-	58,876	58,876
Extracurricular.	-	-	-	91,945	91,945
Classroom materials and fees	18,737	-	-	-	18,737
Other local revenues.	22,657	-	-	50,515	73,172
Intergovernmental - State.	4,019,906	30,963	25,757	29,018	4,105,644
Intergovernmental - Federal	-	-	-	286,595	286,595
Total revenue	<u>6,069,413</u>	<u>213,274</u>	<u>174,681</u>	<u>585,817</u>	<u>7,043,185</u>
Expenditures:					
Current:					
Instruction:					
Regular	4,074,673	-	-	32,144	4,106,817
Special.	542,271	-	-	206,179	748,450
Vocational.	45,879	-	-	-	45,879
Support services:					
Pupil.	252,679	-	-	-	252,679
Instructional staff	84,934	-	-	-	84,934
Board of education	53,005	-	-	-	53,005
Administration.	508,292	-	-	23,875	532,167
Fiscal	226,905	3,096	-	1,240	231,241
Operations and maintenance.	673,046	164,607	-	69,069	906,722
Pupil transportation	129,160	-	-	-	129,160
Central.	16,408	-	-	-	16,408
Operation of non-instructional services:					
Food service operations.	-	-	-	127,222	127,222
Other non-instructional services.	-	-	-	50,816	50,816
Extracurricular activities.	211,807	-	-	80,116	291,923
Debt service:					
Principal retirement	20,240	-	105,000	-	125,240
Interest and fiscal charges	32,460	11,768	54,455	6,886	105,569
Total expenditures	<u>6,871,759</u>	<u>179,471</u>	<u>159,455</u>	<u>597,547</u>	<u>7,808,232</u>
Net change in fund balances	(802,346)	33,803	15,226	(11,730)	(765,047)
Fund balances (deficit) at					
beginning of year	<u>(1,343,030)</u>	<u>(197,973)</u>	<u>29,064</u>	<u>(194,664)</u>	<u>(1,706,603)</u>
Fund balances (deficit) at end of year . . .	<u>\$ (2,145,376)</u>	<u>\$ (164,170)</u>	<u>\$ 44,290</u>	<u>\$ (206,394)</u>	<u>\$ (2,471,650)</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, 2009

Net change in fund balances - total governmental funds	\$	(765,047)
<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.		(702,200)
Tax revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		345
Repayment of bond and lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets.		125,240
Governmental funds report expenditures for interest when it is due. In the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due. The following resulted in additional interest being reported on the statement of activities:		
Decrease in accrued interest payable	\$ 448	
Accreted interest on capital appreciation bonds	(40,233)	
Amortization of bond issuance costs	(3,170)	
Amortization on bond premiums	8,615	
Amortization of deferred charge on refunding	(5,593)	
Total	(39,933)	(39,933)
Some expenses reported in the statement of activities, such as compensated absences and early retirement incentives, do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.		44,976
Change in net assets of governmental activities	\$	(1,336,619)

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, 2009

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>(Negative)</u>
Revenues:				
From local sources:				
Taxes	\$ 1,129,484	\$ 1,129,484	\$ 1,077,680	\$ (51,804)
Tuition.	985,682	985,682	940,474	(45,208)
Earnings on investments.	376	376	359	(17)
Classroom materials and fees	18,443	18,443	17,597	(846)
Other local revenues.	9,033	9,033	8,619	(414)
Intergovernmental - State	4,213,142	4,213,142	4,019,906	(193,236)
Total revenue	6,356,160	6,356,160	6,064,635	(291,525)
Expenditures:				
Current:				
Instruction:				
Regular	3,501,389	3,501,389	3,818,869	(317,480)
Special.	524,869	524,869	572,460	(47,591)
Vocational.	41,343	41,343	45,092	(3,749)
Support services:				
Pupil.	218,945	218,945	238,797	(19,852)
Instructional staff	68,821	68,821	75,061	(6,240)
Board of education	43,952	43,952	47,937	(3,985)
Administration.	477,626	477,626	520,934	(43,308)
Fiscal	224,841	224,841	245,228	(20,387)
Operations and maintenance.	558,762	558,762	609,427	(50,665)
Pupil transportation	127,544	127,544	139,109	(11,565)
Central.	14,830	14,830	16,175	(1,345)
Extracurricular activities.	187,179	187,179	204,151	(16,972)
Total expenditures	5,990,101	5,990,101	6,533,240	(543,139)
Excess (deficiency) of revenues over (under) expenditures.	366,059	366,059	(468,605)	(834,664)
Other financing sources:				
Refund of prior year expenditure.	14,665	14,665	13,992	(673)
Total other financing sources	14,665	14,665	13,992	(673)
Net change in fund balance	380,724	380,724	(454,613)	(835,337)
Fund balance at beginning of year.	59,572	59,572	59,572	-
Prior year encumbrances appropriated	8,797	8,797	8,797	-
Fund balance (deficit) at end of year.	\$ 449,093	\$ 449,093	\$ (386,244)	\$ (835,337)

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, 2009

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
From local sources:				
Taxes	\$ 98,115	\$ 98,115	\$ 183,896	\$ 85,781
Intergovernmental - State	16,520	16,520	30,963	14,443
Total revenue	<u>114,635</u>	<u>114,635</u>	<u>214,859</u>	<u>100,224</u>
Expenditures:				
Current:				
Support services:				
Fiscal	1,652	1,652	3,096	(1,444)
Operations and maintenance.	87,823	87,823	164,607	(76,784)
Debt service:				
Principal retirement	106,707	106,707	200,000	(93,293)
Interest and fiscal charges	3,818	3,818	7,156	(3,338)
Total expenditures	<u>200,000</u>	<u>200,000</u>	<u>374,859</u>	<u>(174,859)</u>
Excess of expenditures over revenues.	<u>(85,365)</u>	<u>(85,365)</u>	<u>(160,000)</u>	<u>(74,635)</u>
Other financing sources:				
Sale of notes	85,365	85,365	160,000	74,635
Total other financing sources	<u>85,365</u>	<u>85,365</u>	<u>160,000</u>	<u>74,635</u>
Net change in fund balance	-	-	-	-
Fund balance at beginning of year.	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
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, 2009

	Private-Purpose Trust	
	Scholarship	Agency
Assets:		
Equity in pooled cash and cash equivalents	\$ -	\$ 31,810
Receivables:		
Loans	6,770	3,886
Total assets.	6,770	\$ 35,696
Liabilities:		
Accounts payable.	2,000	\$ 8,092
Due to students	-	27,604
Total liabilities	2,000	\$ 35,696
Net Assets:		
Held in trust for scholarships	4,770	
Total net assets	\$ 4,770	

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, 2009

	Private-Purpose Trust
	Scholarship
Additions:	
Gifts and contributions.	\$ 10,000
Total additions.	10,000
Deductions:	
Scholarships awarded	14,513
Change in net assets	(4,513)
Net assets at beginning of year	9,283
Net assets at end of year	\$ 4,770

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, 2009**

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 504th largest in the State of Ohio (among 922 public school districts and community schools in the State) in terms of enrollment. It currently operates one elementary school and one comprehensive middle/high school. The District is staffed by 63 certified and 24 classified personnel to provide services to approximately 914 students and other community members.

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

The Financial Recovery Plan was adopted on February 22, 2010, and under Ohio law, must be updated annually. The Recovery Plan included reductions of administrative staff, classified staff, certified staff, supplemental positions, and early retirement incentive plus other expenses in fiscal years 2011 and 2010. See Note 18 for more information on the District's fiscal emergency status.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units". The reporting entity is composed of the primary government and component units. 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, and student related activities of the District.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

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

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

The following organizations are described due to their relationship to the District:

JOINTLY GOVERNED ORGANIZATIONS

Northeast Ohio Management Information Network (NEOMIN)

NEOMIN is a jointly governed organization among thirty school districts in Trumbull and Ashtabula Counties. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to the administrative and instructional functions among member districts. Each of the districts supports NEOMIN based upon a per pupil charge.

Superintendents of the participating school districts are eligible to be voting members of the Governing Board, which consists of ten members: the Trumbull and Ashtabula County superintendents (permanent members), three superintendents from Ashtabula County school districts, three superintendents from Trumbull County districts, and a treasurer from each county. The District was not represented on the Governing Board during fiscal year 2009. The degree of control exercised by any participating school district is limited to its representation on the Governing Board. A complete set of separate financial statements may be obtained from the Trumbull County Educational Service Center, 6000 Youngstown-Warren Road, Niles, Ohio 44446.

North East Ohio Instructional Media Center (NEOIMC)

NEOIMC is a jointly governed organization among 45 school districts. The jointly governed organization was formed for the purpose of providing quality films and/or other media to support the educational curricula of the member school districts. 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 joint vocational school, the county superintendent from each participating county, one city superintendent, and two local superintendents rotating every two years. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained by contacting the Treasurer at the Trumbull County Educational Service Center, 6000 Youngstown-Warren Road, Niles, Ohio 44446.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

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

PUBLIC ENTITY RISK POOL

Ohio Association School Business Officials Workers' Compensation Group Rating Program

The District participates in a group rating program for worker's compensation as established under Section 4123.29 of the Ohio Revised Code. The Ohio Association of School Business Officials Workers' Compensation Group Rating Program (the "Program") was established through the Ohio Association of School Business Officials (OASBO) as a group purchasing pool.

The Executive Director of the OASBO, or his designee, serves as coordinator of the Program. Each year, the participating school districts pay an enrollment fee to the Program to cover the costs of administering the Program. Refer to Note 12.C for further information on this group rating plan.

B. Fund Accounting

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

GOVERNMENTAL FUNDS

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

Emergency levy fund - A special revenue fund used to account for the proceeds from a special levy necessary to satisfy a district's emergency needs.

Bond retirement fund - A debt service fund provided for the retirement of long term serial bonds and short term notes and loans. All revenue derived from general or special levies, either within or exceeding the ten-mill limitation, which is levied for debt charges on bonds, notes or loans shall be paid into this fund.

Other governmental funds of the District are used to account for (a) financial resources to be used for the acquisition, construction, or improvement of capital facilities; and, (b) 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

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

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.

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

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

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 Nonexchange Transactions - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, are 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).

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

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

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

Property taxes for which there is an enforceable legal claim as of June 30, 2009, but which were levied to finance fiscal year 2010 operations, and other revenues received in advance of the fiscal year for which they are intended to finance, have been recorded as unearned revenue. Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period, including delinquent property taxes due at June 30, 2009, 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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

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

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

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 2009 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 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.
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 July 1, 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 District did not report the unencumbered balances from the preceding year, and therefore, did not receive an amended certificate of estimated resources. The budget figures, as shown in the accompanying budgetary statements, reflect the amounts set forth in the original statement of fund activity which was presented to the Budget Commission as part of the alternative tax budget for fiscal year 2009.
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. The District's annual appropriation resolution was enacted at the fund type level of expenditures contrary to state statute.
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. As disclosed in Note 3, all funds did not complete the year within the amount of their legally authorized cash basis appropriation.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

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

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, 2009, 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 2009 the District had no investments. All District monies were held in depository accounts.

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. Interest revenue credited to the general fund during fiscal year 2009 amounted to \$288, which includes \$256 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 deposits at fiscal year-end is provided in Note 4.

G. Inventory

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

Inventory consists of supplies, 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

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

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. The District maintains 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.

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

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

I. Interfund Balances

On the fund financial statements, receivables and payables resulting from short-term interfund loans from governmental funds to cover negative cash balances in governmental funds are classified as "due to/from other funds". These amounts are eliminated in the governmental activities column on the statement of net assets.

Loans from the private purpose fund and agency fund to the governmental funds to cover negative cash fund balances in governmental funds are classified as "loans to/from other funds."

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, 2009, 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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

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

The total liability for vacation and severance payments has been calculated using pay rates in effect at June 30, 2009 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.

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 and capital leases are recognized as a liability on the fund financial statements when due.

L. Unamortized Bond Issuance Costs/Bond Premium and Discount/Accounting Gain or Loss

On government-wide financial statements, issuance costs are deferred and amortized over the term of the bonds using the straight-line method. Unamortized issuance costs are recorded as a separate line item on the statement of net assets.

Bond premiums are deferred and amortized over the term of the bonds using the straight-line method, which approximates the effective interest method. Bond premiums are presented as an addition to the face amount of the bonds.

For advance refundings resulting in the defeasance of debt, the difference between the reacquisition price and the net carrying amount of the old debt is deferred and amortized as a component of interest expense. This accounting gain or loss is amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter, and is presented as an addition to or reduction of the face amount of the new debt.

On the governmental fund financial statements, issuance costs and bond premiums are recognized in the current period. An reconciliation between the bonds face value and the amount reported on the statement of net assets is presented in Note 10.A.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

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

M. 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, school bus purchases and instructional materials. The reserve for property tax revenue unavailable for appropriation represents taxes recognized as revenue under GAAP, but not available for appropriation under State statute.

N. Net Assets

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

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

O. 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.

P. 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.

Q. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents set-aside to establish a school bus purchase and instructional materials reserve. These reserves are required by State statute. A schedule of statutory reserves is presented in Note 17.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

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

R. 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.

S. 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 2009.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Changes in Accounting Principles

For fiscal year 2009, the District has implemented GASB Statement No. 49, "Accounting and Financial Reporting for Pollution Remediation Obligations", GASB Statement No. 52, "Land and Other Real Estate Held as Investments by Endowments", GASB Statement No. 55, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments", and GASB Statement No. 56 "Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards".

GASB Statement No. 49 addresses accounting and financial reporting standards for pollution remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The implementation of GASB Statement No. 49 did not have an effect on the financial statements of the District.

GASB Statement No. 52 improves the quality of financial reporting by requiring endowments to report their land and other real estate investments at fair value, creating consistency in reporting among similar entities that exist to invest resources for the purpose of generating income. The implementation of GASB Statement No. 52 did not have an effect on the financial statements of the District.

GASB Statement No. 55 incorporates the hierarchy of generally accepted accounting principles (GAAP) for state and local governments into the GASB's authoritative literature. The implementation of GASB Statement No. 55 did not have an effect on the financial statements of the District.

GASB Statement No. 56 incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance presented in the American Institute of Certified Public Accountants' (AICPA) Statements on Auditing Standards. The implementation of GASB Statement No. 56 did not have an effect on the financial statements of the District.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

B. Deficit Fund Balances

Fund balances at June 30, 2009 included the following individual fund deficits:

<u>Major fund</u>	<u>Deficit</u>
General	\$ 2,145,376
Emergency levy	164,170
<u>Nonmajor governmental funds</u>	
Food service	53,627
Rotary-internal service	6,144
Public school support	4,420
Classroom facilities maintenance	7,586
Disadvantaged pupil impact aid	25
Title I	10,583
Title V	7
Improving teacher quality	277
Permanent improvement	141,848

Except for the general fund and the food service, rotary, public school support, classroom facilities maintenance, and permanent improvement nonmajor governmental funds, these funds complied with Ohio State law, which does not permit a cash basis deficit at year end. The deficit fund balances and net assets result from adjustments for accrued liabilities.

C. Compliance

The District had negative cash fund balances in several governmental funds at June 30, 2009 totaling \$324,484, indicating that revenue from other sources were used to pay obligations of these funds contrary to Ohio Revised Code Section 5705.10. For GAAP purposes, \$231,855 has been reported as fund liabilities and \$92,629 has been reported as “due from/to other funds” and “loans from/to other funds” on the basic financial statements (see Note 5 for detail).

D. Debt Covenant

At June 30, 2009, the District was not in compliance with the provisions of the \$600,000 tax revenue note covenants that require tax monies to be accumulated in a restricted account to ensure payment of the note at maturity. Further, the covenants require the Treasurer to maintain the restricted account until all debt charges on the note are paid. The District failed to pay the note by the date of maturity.

In addition, at June 30, 2009, the District was not in compliance with the provisions of the \$120,000 tax anticipation note covenants that require the note to be repaid on its maturity date of November 25, 2008. The District paid the note on December 10, 2008 from the Permanent Improvement Fund.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

E. Expenditures Plus Encumbrances Exceeded Appropriations

As of June 30, 2009, the General Fund and Emergency Levy Fund had expenditures plus encumbrances in excess of appropriations which is contrary to Ohio Revised Code Section 5705.41(B).

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasury Asset Reserve of Ohio (STAR Ohio) investment pool;

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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.

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

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

A. Cash on Hand

At fiscal year end, the District had \$250 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, 2009, the carrying amount of all District deposits was \$31,560. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2009, the District's entire bank balance of \$36,569 was covered by the FDIC.

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

The following is a reconciliation of cash and investments as reported in the note disclosure above to cash and investments as reported on the statement of net assets as of June 30, 2009:

<u>Cash and investments per note disclosure</u>	
Carrying amount of deposits	\$ 31,560
Cash on hand	<u>250</u>
Total	<u>\$ 31,810</u>
 <u>Cash and investments per statement of net assets</u>	
Agency funds	<u>\$ 31,810</u>
Total	<u>\$ 31,810</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 5 - INTERFUND TRANSACTIONS

A. Due From/To Other Funds

Due from/ to other funds for the fiscal year ended June 30, 2009 consisted of the following, as reported in the fund financial statements:

<u>Due from:</u>	<u>Due to:</u>	<u>Amount</u>
General fund	Debt service fund	\$ 43,902
General fund	Nonmajor governmental funds	7,694
Nonmajor governmental funds	Nonmajor governmental funds	<u>30,387</u>
Total		<u>\$ 81,983</u>

Due from/to other funds are short-term interfund balances and are expected to be repaid within one year. Due from/to other funds between governmental funds are eliminated on the government-wide financial statements.

B. Loans From/To Other Funds

Loans from/to other funds for the fiscal year ended June 30, 2009 consisted of the following, as reported in the fund financial statements:

<u>Loan from:</u>	<u>Loan to:</u>	<u>Amount</u>
Private-purpose trust fund	Nonmajor governmental funds	\$ 6,770
Agency fund	Nonmajor governmental funds	<u>3,886</u>
Total		<u>\$ 10,656</u>

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

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 property, public utility property, and tangible personal (used in business) property located in the District. Real property tax revenues received in calendar year 2009 represent the collection of calendar year 2008 taxes. Real property taxes received in calendar year 2009 were levied after April 1, 2008, on the assessed values as of January 1, 2008, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, 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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

NOTE 6 - PROPERTY TAXES - (Continued)

Public utility property tax revenues received in calendar year 2009 represent the collection of calendar year 2008 taxes. Public utility real and tangible personal property taxes received in calendar year 2009 became a lien on December 31, 2007, were levied after April 1, 2008, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax revenues received in calendar year 2009 (other than public utility property) represent the collection of calendar year 2009 taxes levied against local and inter-exchange telephone companies. Tangible personal property tax on business inventory, manufacturing machinery and equipment, and furniture and fixtures is no longer levied and collected. The October 2008 tangible personal property tax settlement was the last property tax settlement for general personal property taxes. Tangible personal property taxes received from telephone companies in calendar year 2009 were levied after October 1, 2008, on the value as of December 31, 2008. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, 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, 2009, are available to finance fiscal year 2009 operations. The amount available as an advance at June 30, 2009 was \$2,840 in the general fund, \$442 in the emergency levy special revenue fund, \$388 in the bond retirement debt service fund, \$54 in the classroom facilities maintenance special revenue fund (a nonmajor governmental fund), and \$142 in the permanent improvement capital projects fund (a nonmajor governmental fund.) This amount is recorded as revenue. The amount available for advance at June 30, 2008 was \$13,169 in the general fund, \$2,027 in the emergency levy special revenue fund, \$1,641 in the bond retirement debt service fund, \$230 in the classroom facilities maintenance special revenue fund (a nonmajor governmental fund), and \$636 in the permanent improvement capital projects fund (a nonmajor governmental fund.) The amount of second-half real property taxes available for advance at fiscal year-end can vary based on the date the 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, 2009 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to unearned revenue.

On the accrual basis of accounting, collectible delinquent property taxes have been recorded as a receivable and revenue, while on a modified accrual basis of accounting 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, 2009

NOTE 6 - PROPERTY TAXES - (Continued)

The assessed values upon which the fiscal year 2009 taxes were collected are:

	2008 Second Half Collections		2009 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 52,389,210	95.88	\$ 52,536,540	96.24
Public utility personal	1,067,120	1.95	1,055,250	1.93
Tangible personal property	<u>1,184,929</u>	<u>2.17</u>	<u>994,680</u>	<u>1.83</u>
Total	<u>\$ 54,641,259</u>	<u>100.00</u>	<u>\$ 54,586,470</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$51.20		\$51.45	

NOTE 7 - RECEIVABLES

Receivables at June 30, 2009 consisted of taxes and accounts. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes. A summary of the principal items of receivables reported on the statement of net assets follows:

Governmental activities:

Taxes	\$ 1,370,453
Accounts	<u>1,186</u>
Total	<u>\$ 1,371,639</u>

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, 2009

NOTE 8 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2009 was as follows:

<u>Governmental activities:</u>	<u>Balance</u> <u>06/30/08</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>06/30/09</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 311,600	\$ -	\$ -	\$ 311,600
<i>Total capital assets, not being depreciated</i>	<u>311,600</u>	<u>-</u>	<u>-</u>	<u>311,600</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	541,458	-	-	541,458
Buildings and improvements	19,922,204	-	-	19,922,204
Equipment and furniture	650,043	-	-	650,043
Vehicles	231,318	-	-	231,318
<i>Total capital assets, being depreciated</i>	<u>21,345,023</u>	<u>-</u>	<u>-</u>	<u>21,345,023</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(170,228)	(25,547)	-	(195,775)
Buildings and improvements	(4,999,709)	(593,731)	-	(5,593,440)
Equipment and furniture	(348,209)	(79,190)	-	(427,399)
Vehicles	(227,586)	(3,732)	-	(231,318)
<i>Total accumulated depreciation</i>	<u>(5,745,732)</u>	<u>(702,200)</u>	<u>-</u>	<u>(6,447,932)</u>
Total capital assets, net	<u>\$ 15,910,891</u>	<u>\$ (702,200)</u>	<u>\$ -</u>	<u>\$ 15,208,691</u>

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 655,666
<u>Support services:</u>	
Administration	23,316
Operations and maintenance	12,837
Pupil transportation	3,732
Extracurricular activities	3,551
Food service operations	<u>3,098</u>
Total depreciation expense	<u>\$ 702,200</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 9 - CAPITAL LEASE-LESSEE DISCLOSURE

On June 26, 2007, the District entered into a lease for copier and printer 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 \$116,580. This amount represents the present value of the minimum lease payments at the time of acquisition. Accumulated depreciation as of June 30, 2009 was \$46,632 and the book value was \$69,948. A corresponding liability is recorded in the government-wide financial statements. Principal and interest payments in fiscal year 2009 totaled \$20,240 and \$3,960, respectively.

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, 2009:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2010	\$ 28,600
2011	26,400
2012	<u>26,400</u>
Total minimum lease payments	81,400
Less: amount representing interest	<u>(6,109)</u>
Total	<u><u>\$ 75,291</u></u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 10 - LONG-TERM OBLIGATIONS

A. During the year ended June 30, 2009, the following activity occurred in the long-term obligations.

<u>Governmental activities:</u>	<u>Balance</u> <u>06/30/08</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>06/30/09</u>	<u>Amount</u> <u>Due in</u> <u>One Year</u>
<u>General obligation bonds</u>					
Current interest bonds-series 2001	\$ 160,000	\$ -	\$ (80,000)	\$ 80,000	\$ 80,000
Capital appreciation bonds-series 2001	4,000	-	-	4,000	-
Accreted interest-series 2001	57,790	25,214	-	83,004	-
Current interest bonds-series 2006	1,170,000	-	(25,000)	1,145,000	25,000
Capital appreciation bonds-series 2006	84,997	-	-	84,997	-
Accreted interest-series 2006	<u>24,426</u>	<u>15,019</u>	<u>-</u>	<u>39,445</u>	<u>-</u>
Total general obligation bonds	<u>\$ 1,501,213</u>	<u>\$ 40,233</u>	<u>\$ (105,000)</u>	<u>\$ 1,436,446</u>	<u>\$ 105,000</u>
Capital lease obligation	95,531	-	(20,240)	75,291	25,144
Compensated absences	376,256	186,054	(150,245)	412,065	93,705
Retirement incentive	<u>10,000</u>	<u>31,800</u>	<u>(41,800)</u>	<u>-</u>	<u>-</u>
Total long-term obligations	<u>\$ 1,983,000</u>	<u>\$ 258,087</u>	<u>\$ (317,285)</u>	<u>\$ 1,923,802</u>	<u>\$ 223,849</u>
Unamortized premium on bonds				115,591	
Deferred loss on advance refunding				<u>(75,042)</u>	
Total governmental activities				<u>\$ 1,964,351</u>	

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

B. 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 mil bonded debt tax levy.

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, 2009 was \$4,000. A total of \$83,004 in accreted interest has been reported at June 30, 2009.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

The current interest bonds maturing on or after December 1, 2010 are subject to early redemption at the sole option of the District, at the following redemption prices, plus accrued interest:

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

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

During fiscal year 2006, the District refunded the callable portion (\$1,290,000) of the current interest bonds (See Note 10.C.). The following is a schedule of activity for fiscal year 2009 on the 2001 series general obligation bonds:

<u>General obligation bonds</u>	<u>Balance Outstanding 6/30/2008</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance Outstanding 6/30/2009</u>	<u>Amount Due in One Year</u>
Current interest bonds	\$ 160,000	\$ -	\$ (80,000)	\$ 80,000	\$ 80,000
Capital appreciation bonds	4,000	-	-	4,000	-
Accreted interest	57,790	25,214	-	83,004	-
Total	<u>\$ 221,790</u>	<u>\$ 25,214</u>	<u>\$ (80,000)</u>	<u>\$ 167,004</u>	<u>\$ 80,000</u>

The following is a summary of the future debt service requirements to maturity for the 2001 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>
2010	\$ 80,000	\$ 81,800	\$ 161,800	\$ -	\$ -	\$ -
2011	-	77,400	77,400	2,339	82,661	85,000
2012	-	77,400	77,400	1,661	83,339	85,000
Total	<u>\$ 80,000</u>	<u>\$ 236,600</u>	<u>\$ 316,600</u>	<u>\$ 4,000</u>	<u>\$ 166,000</u>	<u>\$ 170,000</u>

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

The refunding issue is comprised of both current interest bonds, par value \$1,205,000, and capital appreciation bonds, par value \$420,000. The capital appreciation bonds mature December 1, 2017, December 1, 2018, and December 1, 2019 at a redemption price equal to 100% of the principal, plus accreted interest to the redemption date. The present value (as of issue date) reported on the statement of net assets at June 30, 2009 was \$84,997. Total accreted interest of \$39,445 has been included in the statement of activities.

The following is a schedule of activity for fiscal year 2009 on the 2006 series general obligation bonds:

<u>General obligation bonds</u>	<u>Balance Outstanding 6/30/2008</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance Outstanding 6/30/2009</u>	<u>Amount Due in One Year</u>
Current interest bonds	\$ 1,170,000	\$ -	\$ (25,000)	\$ 1,145,000	\$ 25,000
Capital appreciation bonds	84,997	-	-	84,997	-
Accreted interest	24,426	15,019	-	39,445	-
Total	<u>\$ 1,279,423</u>	<u>\$ 15,019</u>	<u>\$ (25,000)</u>	<u>\$ 1,269,442</u>	<u>\$ 25,000</u>

The following is a summary of the future debt service requirements to maturity for the 2006 series refunding 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>
2010	\$ 25,000	\$ 44,830	\$ 69,830	\$ -	\$ -	\$ -
2011	30,000	43,905	73,905	-	-	-
2012	30,000	42,795	72,795	-	-	-
2013	115,000	41,685	156,685	-	-	-
2014	120,000	37,430	157,430	-	-	-
2015 - 2019	390,000	120,135	510,135	60,221	219,779	280,000
2020 - 2023	<u>435,000</u>	<u>53,915</u>	<u>488,915</u>	<u>24,776</u>	<u>115,224</u>	<u>140,000</u>
Total	<u>\$ 1,145,000</u>	<u>\$ 384,695</u>	<u>\$ 1,529,695</u>	<u>\$ 84,997</u>	<u>\$ 335,003</u>	<u>\$ 420,000</u>

D. Legal Debt Margins

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

The assessed valuation used in determining the District's legal debt margins has been modified by House Bill 530, which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District's legal debt margin calculations excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The effects of these debt limitations at June 30, 2009 are a legal voted debt margin of \$3,547,941 (including available funds of \$44,290) and a legal unvoted debt margin of \$53,529

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

NOTE 11 - NOTES PAYABLE

Short-term obligation activity for the fiscal year ended June 30, 2009 was as follows:

<u>Governmental activities:</u>	<u>Interest Rate</u>	<u>Balance 06/30/08</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 06/30/09</u>
<u>General Fund</u>					
Tax revenue note - 2008	4.75%	\$ 600,000	\$ -	\$ -	\$ 600,000
<u>Emergency Levy Fund</u>					
Tax anticipation note - 2008	4.00%	200,000	-	(200,000)	-
Tax anticipation note - 2009	5.00%	-	160,000	-	160,000
<u>Nonmajor Governmental Funds</u>					
Tax anticipation note - 2008	4.00%	120,000	-	(120,000)	-
Tax anticipation note - 2009	5.00%	-	90,000	-	90,000
Total notes payable		<u>\$ 920,000</u>	<u>\$ 250,000</u>	<u>\$ (320,000)</u>	<u>\$ 850,000</u>

The tax revenue notes were issued in anticipation of the collection of current property tax revenues for the purpose of paying current expenses for the general operations of the District. The tax anticipation notes were issued in anticipation of the levy and collection of taxes for the purpose of providing funds for the emergency needs of the District and for permanent improvements of the District. The notes are reported as a liability in the respective funds on the governmental funds balance sheet and in governmental activities on the statement of net assets.

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 \$23,721,209 with a deductible of \$1,000.

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

Settled claims have not exceeded commercial coverage in any of the past three years. There has been no significant reduction in coverage from fiscal year 2008.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

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 Association of School Business Official Workers' Compensation Group Rating Program (the "Program"), an insurance purchasing pool (Note 2.A.). The intent of the Program is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the Program. Participants in the Program are placed on tiers according to their loss history. Participants with low loss histories are rewarded with greater savings than participants with higher loss histories. Each participant pays its workers' compensation premium to the State based on the rate for the Program tier rather than its individual rate. Participation in the Program is limited to school districts that can meet the Program's selection criteria. The firm of Sheakley UniService, Inc. provides administrative, cost control and actuarial services to the Program.

NOTE 13 - PENSION PLANS

A. School Employees Retirement System

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

NOTE 13 - PENSION PLANS - (Continued)

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2009, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2009, 2008 and 2007 were \$60,577, \$58,738 and \$63,230, respectively; 45.44 percent has been contributed for fiscal year 2009 and 100 percent for fiscal years 2008 and 2007.

B. State Teachers Retirement System of Ohio

Plan Description - The District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. 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 a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. 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. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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 of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy - For fiscal year 2009, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

NOTE 13 - PENSION PLANS - (Continued)

The District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2009, 2008 and 2007 were \$476,807, \$448,414 and \$432,890, respectively; 84.00 percent has been contributed for fiscal year 2009 and 100 percent for fiscal years 2008 and 2007. Contributions to the DC and Combined Plans for fiscal year 2009 were \$24,419 made by the District and \$34,842 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS/STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2009, certain members of the Board of Education have elected Social Security. The District's liability is 6.2 percent of wages paid.

NOTE 14 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description - The District participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2009, 4.16 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2009, the actuarially determined amount was \$35,800.

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

The District's contributions for health care (including surcharge) for the fiscal years ended June 30, 2009, 2008, and 2007 were \$40,241, \$36,775 and \$30,376, respectively; 45.44 percent has been contributed for fiscal year 2009 and 100 percent for fiscal years 2008 and 2007.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2009, this actuarially required allocation was 0.75 percent of covered payroll. The District's contributions for Medicare Part B for the fiscal years ended June 30, 2009, 2008, and 2007 were \$4,998, \$4,232 and \$4,300, respectively; 45.44 percent has been contributed for fiscal year 2009 and 100 percent for fiscal years 2008 and 2007.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

NOTE 14 - POSTEMPLOYMENT BENEFITS - (Continued)

B. State Teachers Retirement System of Ohio

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

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2009, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The District's contributions for health care for the fiscal years ended June 30, 2009, 2008, and 2007 were \$36,677, \$34,493 and \$33,299, respectively; 84.00 percent has been contributed for fiscal year 2009 and 100 percent for fiscal years 2008 and 2007.

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 revenues, 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); and,
- (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, 2009

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	\$ (454,613)	\$ -
Net adjustment for revenue accruals	4,778	(1,585)
Net adjustment for expenditure accruals	(673,167)	195,388
Net adjustment for other financing sources/uses	(13,992)	(160,000)
Adjustment for encumbrances	<u>334,648</u>	<u>-</u>
GAAP basis	<u>\$ (802,346)</u>	<u>\$ 33,803</u>

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.

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, 2009, the reserve activity was as follows:

	<u>Instructional Materials</u>	<u>Capital Maintenance</u>
Set-aside balance as of June 30, 2008	\$ (17,422)	\$ -
Current year set-aside requirement	151,232	151,232
Current year offsets	-	(155,419)
Current year qualifying expenditures	<u>(124,065)</u>	<u>(106,677)</u>
Total	<u>\$ 9,745</u>	<u>\$ (110,864)</u>
Balance carried forward to fiscal year 2010	<u>\$ 9,745</u>	<u>\$ -</u>

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

NOTE 17 - STATUTORY RESERVES - (Continued)

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

In addition to the above statutory reserves, the District also received monies restricted for school bus purchases in the amount of \$991.

The instructional materials reserve was not reported on the governmental funds balance sheet as restricted cash since the general fund did not have an available cash balance at June 30, 2009.

NOTE 18 – FINANCIAL DISTRESS

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

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

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

NOTE 19 - SUBSEQUENT EVENTS

A. Notes Payable

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

B. Treasurer

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

C. Superintendent

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

THIS PAGE INTENTIONALLY LEFT BLANK.



Mary Taylor, CPA

Auditor of State

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

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

To the Board of Education:

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

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider significant deficiencies.

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

We consider findings 2009-005 and 2009-007 described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies that might be significant deficiencies, and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. Of the significant deficiencies described above, we believe findings 2009-005 and 2009-007 are also material weaknesses.

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

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2009-001 through 2009-004 and item 2009-006 through 2009-007.

We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the District's management in a separate letter dated May 21, 2010.

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

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



Mary Taylor, CPA
Auditor of State

May 21, 2010

MCDONALD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY

SCHEDULE OF FINDINGS
JUNE 30, 2009

FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

FINDING NUMBER 2009-001

Noncompliance Finding

Tax Revenue Note

The District issued a tax revenue note in the amount of \$600,000 pursuant to **Ohio Revised Code Section 133.10(C)** in anticipation of the collection of current property tax revenues in and for the fiscal year commencing July 1, 2008 (Fiscal Year 2009). Section 2 of the note covenant provided that the note would mature on June 30, 2009.

In accordance with Ohio Revised Code Section 133.10(E)(1) and Section 7 of the note covenant, the District was required to notify and authorize the County Auditor to draw and issue at the time of each distribution that portion needed to ensure payment of the note charges at maturity to the credit of a separate account of the Bond Retirement Fund of the District entitled Current Tax Revenue Note (hereinafter "CTRN account"). Further, Section 8 of the note covenant requires the Treasurer to maintain the CTRN account until the debt charges on the note are paid.

We noted that the District failed to repay the note by the date of maturity as provided in the note covenant. Additionally, there was no evidence that the required CTRN account had been established in the Bond Retirement Fund. Further testing disclosed the note was repaid in its entirety on August 12, 2009 from the District's General Fund.

By failing to pay the note by the date of maturity, the District could incur fines and/or penalties. The establishment of the separate CTRN account would have ensured that the District had sufficient funds on hand to pay the note at the date of maturity. We recommend the District Treasurer and Legal Counsel review the requirements of any note covenant to ensure compliance. In addition, the District Treasurer should properly segregate any revenue pledged to pay debt charges and financing costs and expend that revenue on its intended purpose at the time required.

Officials' Response

The Board of Education will ensure that the notes are filed at the County Auditor's office per ORC 133.10 with follow up through the finance committee to be established immediately and made up of two Board members who will work closely with the Treasurer on all financial matters. Any borrowing would require a recommendation from the Finance Committee, Superintendent, and Treasurer.

FINDING NUMBER 2009-002

Noncompliance Finding

Tax Anticipation Note

The District issued a tax anticipation note in the amount of \$120,000 pursuant to **Ohio Revised Code Section 5705.21** in anticipation of the levy and collection of taxes for the purpose of providing funds for permanent improvements dated January 3, 2008. Section 1 of the note covenant provided that the note would mature on November 25, 2008.

**FINDING NUMBER 2009-002
 (Continued)**

We noted that the District failed to repay the note by the date of maturity as provided in the note covenant. Further testing disclosed the note was repaid in its entirety on December 10, 2008 from the District's Permanent Improvement Fund.

By failing to pay the note by the date of maturity, the District could incur fines and/or penalties. We recommend the District Treasurer and Legal Counsel review the requirements of any note covenant to ensure compliance.

Officials' Response

The Board of Education will ensure that the notes are filed at the County Auditor's office per ORC 133.10 with follow up through the finance committee to be established immediately and made up of two Board members who will work closely with the Treasurer on all financial matters. Any borrowing would require a recommendation from the Finance Committee, Superintendent, and Treasurer.

FINDING NUMBER 2009-003

Noncompliance Finding

Deficit Fund Balances

Ohio Rev. Code Section 5705.10 (H), requires that money paid into a fund must be used only for the purposes for which such fund has been established. A negative fund balance indicates that money from one fund was used to cover the expenses of another fund. As of June 30, 2009, the following funds had negative fund balances:

Fund/Number	Beg. Balance	Receipts	Disbursements	End Balance
General/001	\$68,369	\$6,078,627	\$6,417,083	(\$270,087)
Permanent Improvement/003	0	149,492	166,012	(16,520)
Lunchroom/006	(27,186)	107,248	107,262	(27,200)
Rotary/014	816	50,515	57,475	(6,144)
Elem.School Support/018	161	8,618	12,751	(3,972)
OSFC Maintenance/034	0	22,531	23,092	(561)

We recommend that the Treasurer monitors fund balances throughout the year. Should actual receipts be less than anticipated, the Treasurer should reduce the certified estimated receipts with the County Auditor and adjust appropriations accordingly.

Officials' Response

The Finance Committee will monitor fund balances throughout the year. Transfers will be made to cover negative balances prior to year end with the intention of recovering the deficit the following fiscal year.

FINDING NUMBER 2009-004

Noncompliance Finding

Five-Year Projection Reporting

Ohio Rev. Code Section 5705.391(A) requires school boards to prepare five year projections of revenues and expenditures. Additional guidance on the preparation of these projections is found in Ohio Admin Code Section 3301-92-04. The projections must be approved by resolution of the board of education and submitted to the Department of Education upon the adoption of an annual appropriation measure, but no later than October 31 of any fiscal year. An update of the projections must also be submitted to the Department of Education by May 31 of the subsequent year.

The Auditor of State (AOS) and the Department of Education prescribe the format and content of the five year projection and are generally responsible for reviewing the projections and related assumptions for conformity with the requirements.

The District's most recent five year projection for fiscal years ending June 30, 2009 through June 30, 2013 was submitted to the Department of Education on May 26, 2009. This projection reported a positive cash fund balance in each of the five years forecasted, and in particular, a cash balance of \$42,186 at June 30, 2010. We were unable to determine the projections were reasonably stated because there was no documentation to support the assumptions. Further, there was no evidence in the minutes of the Board's meetings to demonstrate that the projections had been approved by the Board.

Per Note 18, the District was placed into fiscal emergency by the Auditor of State on October 15, 2009. A financial forecast conducted by AOS projected a deficit cash balance of \$2,001,000 at June 30, 2010. Based upon the financial forecast, the projection noted above for fiscal year end June 30, 2010 was not reasonable. The significant difference between the AOS and District's projection could be attributed to understating expenditures, especially the repayment of note debt.

We recommend the Board approve the five year projections and updates as required by Ohio Rev. Code Section 5705.391(A). The projections should be based upon assumptions supported by valid evidence and documentation. The District's management and Board should review and analyze financial information on a monthly basis and perform the steps necessary to operate the District in a fiscally responsible manner.

Officials' Response

The Board of Education has attended training to gain a better understanding of deadlines. In addition, the Finance Committee will follow and maintain an in-depth understanding of the development of assumptions for the five year forecast.

FINDING NUMBER 2009-005

Material Weakness

Cash Reconciliation

In order to ensure the completeness and accuracy of the District's accounting records, an effective system of internal controls requires that monthly reconciliations be performed between the fund ledgers and bank depositories. These reconciliations should include a thorough investigation and follow-up of all significant reconciling items.

**FINDING NUMBER 2009-005
 (Continued)**

The District maintains two bank accounts. The general checking account processes payments to vendors. The payroll checking account processes payments to District employees and withholding agencies. The Treasurer did not complete monthly cash reconciliations for April and May of 2009. The cash reconciliation as of June 30, 2009 was not completed until September 11, 2009.

The following deficiencies were noted during our examination of the District's cash reconciliation at June 30, 2009:

- A significant number of non-sufficient fund checks and non-sufficient fund fees were evident in the payroll checking account beginning in May, 2009. There were fifty-two (52) instances of NSF checks resulting in approximately \$1,872 of NSF fees. The Treasurer replaced many of the NSF payroll checks with general account checks which made it difficult to trace the expenditures to the accounting records. On the June 30, 2009 cash reconciliation, the payroll bank account had a negative balance of \$122, 579.
- A significant number of general account checks were posted to the disbursement ledger but remained un-cashed in the Treasurer's office. The result was an adjustment to cash of \$244,456 to properly record the un-paid obligations as fund liabilities. This adjustment has been posted to the ledgers and reflected in the financial statements.

These deficiencies indicated an ineffective system of internal accounting controls over the cash reconciliation process. Errors, irregularities, and misappropriation of assets may occur and not be detected timely, which could potentially misstate the financial statements.

We recommend that monthly cash reconciliations between the District's fund ledgers and bank depositories be prepared timely. Any deficiencies or reconciling items should immediately be investigated and rectified. The Board of Education should closely monitor the reconciliation process by reviewing the follow-up of any deficiencies or reconciling items.

Officials' Response

The Finance Committee will review monthly bank reconciliations. In addition, the Board now reviews monthly financial reports on an ongoing basis.

FINDING NUMBER 2009-006

Noncompliance Finding

Expenditures Plus Encumbrances Exceeding Appropriations

Ohio Revised Code Section 5705.41(B) states that no subdivision or taxing unit is to expend money unless it has been appropriated. As of June 30, 2009, the following funds had expenditures plus encumbrances in excess of appropriations:

<u>Fund</u>	<u>Appropriations</u>	<u>Expenditures Plus Encumbrances</u>	<u>Variance</u>
General	\$5,990,101	\$6,533,240	(\$543,139)
Emergency Levy	200,000	374,859	(174,859)

**FINDING NUMBER 2009-006
(Continued)**

This situation increases the likelihood that deficit spending could occur. The Treasurer should not certify the availability of funds and should deny payment requests exceeding appropriations. The Treasurer may request the Board to approve increased expenditure levels by increasing appropriations and amending estimated resources, if appropriate.

Officials' Response

The Finance Committee will review and monitor finances on a monthly basis to ensure expenses are within the Board approved appropriations.

FINDING NUMBER 2009-007

Noncompliance Finding/Material Weakness

Accounting and Reporting

Ohio Administrative Code (OAC) 117-2-02 requires the District to establish internal controls and report financial information properly. The Board of Education and management are responsible for designing a system of accounting controls which achieve the following objectives:

- Reliability of financial reporting;
- Effectiveness and efficiency of operations;
- Compliance with applicable laws and regulations; and
- Safeguarding of assets.

Ohio Rev. Code Section 3313.29 states, in part, the treasurer shall render a statement to the board and to the superintendent of the school district, monthly, or more often if required, showing the receipts from whatever sources derived, the various appropriations made by the board, the disbursements therefrom, the purposes thereof, and the balances remaining in each appropriation.

During 2009, there was no evidence to demonstrate the Treasurer had provided the required financial reports to the Board. In addition, the Treasurer did not present a schedule of outstanding debt at June 30, 2009 for audit. A schedule of outstanding debt should include balances at the beginning of the period plus all activity throughout the period such as new issues and principal payments.

Lack of budget and actual financial reports and debt schedules or internal controls to produce such information indicated an ineffective oversight of direct and material compliance and monitoring requirements by management or those charged with governance, which could result in the potential misstatement of financial statement amounts. Additional audit procedures and costs were necessary to identify the District's debt activity.

We recommend the District establish a system of internal accounting controls which would achieve the objectives noted above. The Treasurer should provide the Board with all necessary financial data so that they may be able to exercise their responsibilities to operate the District in a prudent manner.

Officials' Response

The Board has established a Finance Committee to monitor accounting and reporting procedures as better internal controls.

THIS PAGE INTENTIONALLY LEFT BLANK.

**MCDONALD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY
JUNE 30, 2009**

SCHEDULE OF PRIOR AUDIT FINDINGS

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2008-001	The District failed to prepare or sign a certificate pursuant to Ohio Rev. Code Section 5705.412 for a collective bargaining contract with the McDonald Education Association.	No	Finding was only valid during fiscal year ending June 30, 2008.
2008-002	The District violated the tax revenue note covenants by failing to pay the note at maturity and failing to establish a separate reserve account to set aside funds to repay the note.	No	Not Corrected - Reissued as finding number 2009-001.

THIS PAGE INTENTIONALLY LEFT BLANK.



Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

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

To the Board of Education:

Ohio Rev. Code Section 117.53 states "the auditor of state shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The auditor of state shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school."

Accordingly, we have performed the procedures enumerated below, which were agreed to by the Board, solely to assist the Board in evaluating whether McDonald Local School District (the District) has adopted an anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the Board. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

1. We noted the Board adopted an anti-harassment policy.
2. We read the policy, noting it included the following requirements from Ohio Rev. Code Section 3313.666(B):
 - (1) A statement prohibiting harassment, intimidation, or bullying of any student on school property or at school-sponsored events;
 - (2) A definition of harassment, intimidation, or bullying that shall include the definition in division (A) of Ohio Rev. Code Section 3313.666;
 - (3) A procedure for reporting prohibited incidents;
 - (4) A requirement that school personnel report prohibited incidents of which they are aware to the school principal or other administrator designated by the principal;
 - (5) A requirement that parents or guardians of any student involved in a prohibited incident be notified and, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended, have access to any written reports pertaining to the prohibited incident;

- (6) A procedure for documenting any prohibited incident that is reported;
- (7) A procedure for responding to and investigating any reported incident;
- (8) A strategy for protecting a victim from additional harassment, intimidation, or bullying, and from retaliation following a report;
- (9) A disciplinary procedure for any student guilty of harassment, intimidation, or bullying, which shall not infringe on any student's rights under the first amendment to the Constitution of the United States;
- (10) A requirement that the district administration semiannually provide the president of the district board a written summary of all reported incidents and post the summary on its web site, if the district has a web site, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board of Education and is not intended to be and should not be used by anyone other than these specified parties.



Mary Taylor, CPA
Auditor of State

April 30, 2010



Mary Taylor, CPA
Auditor of State

**MCDONALD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY**

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JULY 13, 2010**