



Mary Taylor, CPA  
Auditor of State



**MCDONALD LOCAL SCHOOL DISTRICT  
TRUMBULL COUNTY**

**TABLE OF CONTENTS**

<b>TITLE</b>	<b>PAGE</b>
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Government Wide Financial Statements:	
Statement of Net Assets .....	10
Statement of Activities.....	11
Fund Financial Statements:	
Balance Sheet –Governmental Funds .....	12
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities.....	13
Statement of Revenues, Expenditures and Changes in Fund Balances-Governmental Funds.....	14
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities .....	15
Statement of Revenues, Expenditures, and Changes in Fund Balance- Budget (Non-GAAP Basis) and Actual-General Fund .....	16
Statement of Fiduciary Net Assets-Fiduciary Funds.....	17
Statement of Changes in Fiduciary Net Assets-Private Purpose Trust Fund.....	18
Notes to the Basic Financial Statements .....	19
Federal Awards Expenditures Schedule.....	44
Notes to Federal Awards Expenditures Schedule .....	45
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i> .....	47
Independent Accountants' Report on Compliance with Requirements Applicable to Each Major Federal Program and on Internal Control Over Compliance Required By OMB Circular A-133.....	49
Schedule of Findings.....	51
Schedule of Prior Audit Findings.....	53

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# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

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

To The Board of Education:

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of McDonald Local School District, Trumbull County (the District), as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of McDonald Local School District, Trumbull County, Ohio, as of June 30, 2010, and the respective changes in financial position, thereof, and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming the District will continue as a going concern. As discussed in Note 23 to the financial statements, the District has suffered recurring losses from operations and has a net asset deficiency 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 this emergency pursuant to Chapter 3316 of the Ohio Rev. Code. Note 23 describe 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 June 9, 2011, 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.

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

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements taken as a whole. The federal awards expenditure schedule provides additional information required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The federal awards expenditure schedule is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This schedule was subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



**Dave Yost**  
Auditor of State

June 9, 2011

**McDonald Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2010*  
*Unaudited*

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As management of the McDonald Local School District (the School District), we offer readers of the School District's financial statements this narrative and analysis of the financial activities of the School District for the fiscal year ended June 30, 2010. We encourage readers to consider the information presented here in conjunction with the financial statements and notes to the basic financial statements to enhance their understanding of the School District's financial performance.

**Financial Highlights**

- In total, net assets decreased due to an increase in notes payable. The School District received a Solvency Assistance Fund Advance during fiscal year 2010. The advance will be repaid over two years from State foundation revenues. The increase in notes payable was offset by the School District retiring several tax anticipation notes that remained outstanding at the end of fiscal year 2009.
- The School District relies heavily on general revenues to support its operations. Grants and entitlements decreased due to a decrease in School Foundation revenues from the State of Ohio.
- Program expenses decreased due to the Financial Planning and Supervision Commission, which was put in place in fiscal year 2009, insisting the School District make numerous reductions in expenses in an effort to eliminate a potential budget deficit for fiscal year 2010.
- The School District's enrollment stayed consistent from fiscal year 2009 to fiscal year 2010. There was a small increase of a few students in fiscal year 2010.
- The general fund had a decrease in fund balance due mainly to decreases in intergovernmental revenue outpacing reductions made in expenditures.

**Overview of the Financial Statements**

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

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

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

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

**McDonald Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2010*  
*Unaudited*

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

The government-wide financial statements can be found on pages 10-11 of this report.

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

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

The basic fund financial statements can be found on pages 12-16 of this report.

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

The basic fiduciary fund financial statements can be found on pages 17-18 of this report.

***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. The notes to the financial statements can be found on pages 19-43 of this report.

**McDonald Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2010*  
*Unaudited*

**Government-wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. Table 1 provides a comparison of the School District's Net Assets for 2010 compared to 2009.

**Table 1**  
 Net Assets  
 Governmental Activities

	<u>2010</u>	<u>2009</u>	<u>Change</u>
<b>Assets</b>			
Current and Other Assets	\$2,241,048	\$1,415,727	\$825,321
Capital Assets, Net	<u>14,574,887</u>	<u>15,208,691</u>	<u>(633,804)</u>
<i>Total Assets</i>	<u>16,815,935</u>	<u>16,624,418</u>	<u>191,517</u>
<b>Liabilities</b>			
Current Liabilities	4,377,814	3,699,662	678,152
Long-Term Liabilities			
Due Within One Year	275,591	223,849	51,742
Due In More Than One Year	<u>1,669,695</u>	<u>1,669,717</u>	<u>(22)</u>
<i>Total Liabilities</i>	<u>6,323,100</u>	<u>5,593,228</u>	<u>729,872</u>
<b>Net Assets</b>			
Invested in Capital Assets, Net of Related Debt	13,210,758	13,778,854	(568,096)
Restricted for:			
Capital Projects	27,028	0	27,028
Debt Service	181,638	49,843	131,795
Other Purposes	68,652	29,039	39,613
Unrestricted (Deficit)	<u>(2,995,241)</u>	<u>(2,826,546)</u>	<u>(168,695)</u>
<i>Total Net Assets</i>	<u><u>\$10,492,835</u></u>	<u><u>\$11,031,190</u></u>	<u><u>(\$538,355)</u></u>

Current assets increased due mainly to an increase in cash and cash equivalents and property taxes receivable. The School District had more cash available due to the request of a Solvency assistance loan advance which was received during the year. The increase in property taxes receivable can be contributed to the School District beginning the collection on a 4.9 mills emergency levy which passed on November 3, 2009. The decrease in capital assets was due to an additional year of depreciation offset by current year additions.

Total liabilities increased during fiscal year 2010 due to the School District requesting a solvency assistance loan advance. The increase was offset by the annual payments made on the School District's general obligation bonds, decreases in accounts payable and accrued wages. The School District also retired several tax anticipation notes that were outstanding as of the end of fiscal year 2009.

**McDonald Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2010*  
*Unaudited*

In order to further understand what makes up the changes in net assets for the current year, the following table gives readers further details regarding the results of activities for 2010 and 2009.

**Table 2**  
 Governmental Activities

	<u>2010</u>	<u>2009</u>	<u>Change</u>
<b>Program Revenues</b>			
Charges for Services and Sales	\$1,231,902	\$1,169,212	\$62,690
Operating Grants and Contributions	774,507	525,839	248,668
Capital Grants	22,153	0	22,153
	+	+	+
<i>Total Program Revenues</i>	<u>2,028,562</u>	<u>1,695,051</u>	<u>333,511</u>
<b>General Revenues</b>			
Property Taxes	1,489,271	1,467,799	21,472
Grants and Entitlements	3,764,847	3,866,400	(101,553)
Investment Earnings	3,132	288	2,844
Miscellaneous	0	13,992	(13,992)
<i>Total General Revenues</i>	<u>5,257,250</u>	<u>5,348,479</u>	<u>(91,229)</u>
<i>Total Revenues</i>	<u>7,285,812</u>	<u>7,043,530</u>	<u>242,282</u>
<b>Program Expenses</b>			
Instruction:			
Regular	4,522,258	4,711,028	188,770
Special	652,380	750,256	97,876
Vocational	50,304	45,879	(4,425)
Support Services			
Pupils	423,201	253,221	(169,980)
Instructional Staff	74,670	84,934	10,264
Board of Education	22,332	53,005	30,673
Administration	501,753	558,929	57,176
Fiscal	309,392	230,822	(78,570)
Operation and Maintenance of Plant	683,924	920,369	236,445
Pupil Transportation	86,292	132,892	46,600
Central	24,046	16,408	(7,638)
Operation of Non-Instructional Services	0	50,816	50,816
Operation of Food Service	118,846	130,614	11,768
Extracurricular Activities	223,341	295,474	72,133
Interest and Fiscal Charges	131,428	145,502	14,074
<i>Total Program Expenses</i>	<u>7,824,167</u>	<u>8,380,149</u>	<u>555,982</u>
<i>Decrease in Net Assets</i>	(538,355)	(1,336,619)	798,264
Net Assets Beginning of Year	<u>11,031,190</u>	<u>12,367,809</u>	<u>(1,336,619)</u>
Net Assets End of Year	<u>\$10,492,835</u>	<u>\$11,031,190</u>	<u>(\$538,355)</u>

**McDonald Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2010*  
*Unaudited*

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

Program expenses decreased mainly due decreases in regular instruction which can be attributed to several teachers taking the retirement incentive offered in the prior fiscal year and decreases in operation and maintenance expenses.

The *statement of activities* shows the cost of program services and charges for services and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services for 2010 compared to 2009.

**Table 3**  
**Total and Net Cost of Program Services**  
**Governmental Activities**

	2010		2009	
	Total Cost of Service	Net Cost of Service	Total Cost of Service	Net Cost of Service
Instruction:				
Regular	\$4,522,258	\$3,319,883	\$4,711,028	\$3,713,474
Special	652,380	503,456	750,256	323,116
Vocational	50,304	50,304	45,879	44,986
Support Services:				
Pupils	423,201	271,369	253,221	253,221
Instructional Staff	74,670	74,670	84,934	84,934
Board of Education	22,332	22,332	53,005	53,005
Administration	501,753	481,228	558,929	534,748
Fiscal	309,392	309,392	230,822	230,822
Operation and Maintenance of Plant	683,924	395,824	920,369	920,369
Pupil Transportation	86,292	86,292	132,892	132,892
Central	24,046	24,046	16,408	16,408
Operation of Non-Instructional Services	0	0	50,816	301
Operation of Food Service	118,846	2,318	130,614	14,610
Extracurricular Activities	223,341	123,063	295,474	216,710
Interest and Fiscal Charges	131,428	131,428	145,502	145,502
Total	<u>\$7,824,167</u>	<u>\$5,795,605</u>	<u>\$8,380,149</u>	<u>\$6,685,098</u>

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

**McDonald Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2010*  
*Unaudited*

**Financial Analysis of the Government's Funds**

**Governmental Funds** Information about the School District's major funds begins on page 14. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$7,240,154 and expenditures of \$7,141,847. The general fund had a decrease in fund balance due mainly to a decrease in State Foundation revenue offset by decreases in expenditures. Other Governmental Funds had an increase in fund balance due to an increase of grant monies awarded to the School District for the fiscal year.

**General Fund Budgeting Highlights**

The School District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant fund to be budgeted is the main operating fund of the School District, the general fund. During the course of fiscal year 2010, the School District amended its general fund budget numerous times. The School District uses site-based budgeting and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management.

For the general fund, the final budget basis revenue estimate was higher than actual revenues which can be attributed to property tax collections being down and less State foundation revenue receipted than expected. The final budget appropriations were higher than the original budget appropriations of the general fund. The change was attributed to possible increases in expenditures for special instruction, operation and maintenance of plant and extracurricular activities. Overall, the change in the general fund balance was positive.

**Capital Assets and Long-term Liabilities**

*Capital Assets*

Table 4 shows fiscal 2010 values compared to fiscal 2009.

**Table 4**  
 Capital Assets at June 30  
 Governmental Activities

	2010	2009
Land	\$311,600	\$311,600
Land Improvements	320,136	345,683
Buildings and Improvements	13,734,433	14,328,764
Furniture and Fixtures	164,968	222,644
Vehicles	43,750	0
Total Capital Assets	\$14,574,887	\$15,208,691

The decrease in capital assets was due to an additional year of depreciation offset by a small amount of current year additions. For more information about the School District's capital assets, see Note 10 to the basic financial statements.

**McDonald Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2010*  
*Unaudited*

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*Debt*

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

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

	<u>2010</u>	<u>2009</u>
2001 School Improvement Bonds	\$122,506	\$167,004
2006 School Improvement Bonds	1,299,050	1,309,991
Capital Leases	<u>48,156</u>	<u>75,291</u>
Total	<u><u>\$1,469,712</u></u>	<u><u>\$1,552,286</u></u>

The 2001 school improvement bonds were issued to finance the renovations of the high school and the construction of a new elementary school. The 2006 school improvement bonds were issued to advance refund a portion of the 2001 school improvement bonds to take advantage of lower interest rates. Both bonds will be repaid out of the general obligation bond retirement fund. The 2001 school improvement bonds mature in fiscal year 2012 and the 2006 school improvement bonds mature in fiscal year 2023. See Note 13 to the basic financial statements for additional information.

**School District Outlook**

On October 15, 2009, the School District was declared by the Auditor of State to be in a state of "fiscal emergency" based on an anticipated deficit at fiscal year end 2010. To generate additional funds the School District passed an Emergency Levy that will generate \$260,000 per year, borrowed from the State Solvency Fund, and cut expenses where available. With the assistance of the Financial Planning and Supervision Commission, the School District was able to put in place a recovery plan on February 22, 2010. The financial future of the School District will continue to face challenges. These challenges stem from issues that are local and at the State level. The local challenges will continue to exist, as the School District must rely heavily on property taxes to fund its operations. State level challenges continue to evolve as the State of Ohio determines the outcome of the Ohio Supreme Court case dealing with unconstitutionality of the State's educational funding system.

Due to the unsettled issues in school funding, management is required to plan carefully and prudently to provide the resources to meet student needs over the next several years.

In conclusion, the School District's system of budgeting and internal controls is well regarded. All of the School District's financial abilities will be needed to meet the challenges of the future.

**Contacting the School District's Financial Management**

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

# McDonald Local School District

## Statement of Net Assets

June 30, 2010

	<u>Governmental Activities</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$384,168
Accounts Receivable	1,000
Intergovernmental Receivable	26,415
Inventory Held for Resale	1,222
Materials and Supplies Inventory	489
Property Taxes Receivable	1,788,397
Deferred Charges	39,357
Nondepreciable Capital Assets	311,600
Depreciable Capital Assets, Net	<u>14,263,287</u>
<i>Total Assets</i>	<u>16,815,935</u>
<b>Liabilities</b>	
Accounts Payable	18,787
Accrued Wages and Benefits	537,044
Intergovernmental Payable	163,129
Matured Compensated Absences Payable	77,154
Deferred Revenue	1,577,041
Accrued Interest Payable	3,659
Notes Payable	2,001,000
Long-Term Liabilities:	
Due Within One Year	275,591
Due In More Than One Year	<u>1,669,695</u>
<i>Total Liabilities</i>	<u>6,323,100</u>
<b>Net Assets</b>	
Invested in Capital Assets, Net of Related Debt	13,210,758
Restricted for:	
Capital Projects	27,028
Debt Service	181,638
Other Purposes	68,652
Unrestricted	<u>(2,995,241)</u>
<i>Total Net Assets</i>	<u><u>\$10,492,835</u></u>

See accompanying notes to the basic financial statements.

**McDonald Local School District**  
*Statement of Activities*  
For the Fiscal Year Ended June 30, 2010

	Program Revenues			Governmental Activities	Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants and Contributions		
<b>Governmental Activities</b>					
Instruction:					
Regular	\$4,522,258	\$1,059,464	\$142,911	\$0	(\$3,319,883)
Special	652,380	0	148,924	0	(503,456)
Vocational	50,304	0	0	0	(50,304)
Support Services:					
Pupils	423,201	0	151,832	0	(271,369)
Instructional Staff	74,670	0	0	0	(74,670)
Board of Education	22,332	0	0	0	(22,332)
Administration	501,753	10,952	9,573	0	(481,228)
Fiscal	309,392	0	0	0	(309,392)
Operation and Maintenance of Plant	683,924	0	265,947	22,153	(395,824)
Pupil Transportation	86,292	0	0	0	(86,292)
Central	24,046	0	0	0	(24,046)
Operation of Food Service	118,846	63,226	53,302	0	(2,318)
Extracurricular Activities	223,341	98,260	2,018	0	(123,063)
Interest and Fiscal Charges	131,428	0	0	0	(131,428)
<i>Totals</i>	\$7,824,167	\$1,231,902	\$774,507	\$22,153	(5,795,605)
<b>General Revenues</b>					
Property Taxes Levied for:					
General Purposes					1,184,242
Debt Service					142,871
Capital Outlay					143,396
Classroom Facilities Maintenance					18,762
Grants and Entitlements not Restricted to Specific Programs					3,764,847
Investment Earnings					3,132
<i>Total General Revenues</i>					5,257,250
Change in Net Assets					(538,355)
<i>Net Assets Beginning of Year</i>					11,031,190
<i>Net Assets End of Year</i>					\$10,492,835

See accompanying notes to the basic financial statements.

# McDonald Local School District

## Balance Sheet

### Governmental Funds

June 30, 2010

	General	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$239,349	\$144,819	\$384,168
Accounts Receivable	1,000	0	1,000
Intergovernmental Receivable	4,155	22,260	26,415
Interfund Receivable	46,878	0	46,878
Inventory Held for Resale	0	1,222	1,222
Materials and Supplies Inventory	0	489	489
Property Taxes Receivable	1,548,999	239,398	1,788,397
<i>Total Assets</i>	<u>\$1,840,381</u>	<u>\$408,188</u>	<u>\$2,248,569</u>
<b>Liabilities and Fund Balances</b>			
<b>Liabilities</b>			
Accounts Payable	\$11,636	\$7,151	\$18,787
Accrued Wages and Benefits	521,950	15,094	537,044
Interfund Payable	0	46,878	46,878
Matured Compensated Absences Payable	77,154	0	77,154
Intergovernmental Payable	157,712	5,417	163,129
Deferred Revenue	1,533,575	244,345	1,777,920
Notes Payable	2,001,000	0	2,001,000
<i>Total Liabilities</i>	<u>4,303,027</u>	<u>318,885</u>	<u>4,621,912</u>
<b>Fund Balances</b>			
Nonspendable	0	1,711	1,711
Restricted	0	149,605	149,605
Committed	10,864	0	10,864
Assigned	962,056	0	962,056
Unassigned (Deficit)	(3,435,566)	(62,013)	(3,497,579)
<i>Total Fund Balances</i>	<u>(2,462,646)</u>	<u>89,303</u>	<u>(2,373,343)</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$1,840,381</u>	<u>\$408,188</u>	<u>\$2,248,569</u>

See accompanying notes to the basic financial statements.

**McDonald Local School District**  
*Reconciliation of Total Governmental Fund Balances to  
 Net Assets of Governmental Activities  
 June 30, 2010*

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**Total Governmental Fund Balances** (\$2,373,343)

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

Capital assets used in governmental activities are not financial  
 resources and therefore are not reported in the funds. 14,574,887

Other long-term assets are not available to pay for current-period  
 expenditures and therefore are deferred in the funds.

Property Taxes	\$193,548
Intergovernmental	<u>7,331</u>

Total 200,879

Bond issuance costs will be amortized over the life of the bonds on  
 the statement of net assets. 39,357

In the statement of activities, interest is accrued on outstanding  
 bonds, whereas in governmental funds, an interest  
 expenditure is reported when due. (3,659)

Long-term liabilities are not due and payable in the current period  
 and therefore are not reported in the funds:

General Obligation Bonds	(1,120,000)
Capital Appreciation Bonds	(264,029)
Premium on Bonds	(106,976)
Accounting Loss	69,449
Capital Leases	(48,156)
Special Termination Benefits	(157,050)
Compensated Absences	<u>(318,524)</u>

Total (1,945,286)

*Net Assets of Governmental Activities* \$10,492,835

See accompanying notes to the basic financial statements.

**McDonald Local School District**  
*Statement of Revenues, Expenditures and Changes in Fund Balances*  
*Governmental Funds*  
*For the Fiscal Year Ended June 30, 2010*

	General	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>			
Property Taxes	\$1,148,344	\$302,600	\$1,450,944
Intergovernmental	3,738,085	811,295	4,549,380
Interest	3,132	0	3,132
Tuition and Fees	1,044,731	0	1,044,731
Extracurricular Activities	10,952	98,260	109,212
Contributions and Donations	2,778	2,018	4,796
Charges for Services	13,860	63,226	77,086
Rentals	873	0	873
<i>Total Revenues</i>	<u>5,962,755</u>	<u>1,277,399</u>	<u>7,240,154</u>
<b>Expenditures</b>			
Current:			
Instruction:			
Regular	3,647,139	125,045	3,772,184
Special	484,765	149,332	634,097
Vocational	50,304	0	50,304
Support Services:			
Pupils	251,994	151,831	403,825
Instructional Staff	74,670	0	74,670
Board of Education	22,332	0	22,332
Administration	476,536	14,314	490,850
Fiscal	313,755	678	314,433
Operation and Maintenance of Plant	422,208	250,402	672,610
Pupil Transportation	130,042	0	130,042
Central	24,046	0	24,046
Operation of Food Service	0	115,458	115,458
Extracurricular Activities	145,206	74,584	219,790
Debt Service:			
Principal Retirement	27,135	105,000	132,135
Interest and Fiscal Charges	35,159	49,912	85,071
<i>Total Expenditures</i>	<u>6,105,291</u>	<u>1,036,556</u>	<u>7,141,847</u>
<i>Net Change in Fund Balances</i>	(142,536)	240,843	98,307
<i>Fund Balances (Deficit) Beginning of Year</i>	<u>(2,320,110)</u>	<u>(151,540)</u>	<u>(2,471,650)</u>
<i>Fund Balances (Deficit) End of Year</i>	<u><u>(\$2,462,646)</u></u>	<u><u>\$89,303</u></u>	<u><u>(\$2,373,343)</u></u>

See accompanying notes to the basic financial statements.

**McDonald Local School District**  
*Reconciliation of the Statement of Revenues, Expenditures and Changes  
in Fund Balances of Governmental Funds to the Statement of Activities  
For the Fiscal Year Ended June 30, 2010*

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**Net Change in Fund Balances - Total Governmental Funds** \$98,307

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

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

Capital Outlay	70,000	
Depreciation	<u>(703,804)</u>	
Total		(633,804)

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

Property Taxes	38,327	
Intergovernmental	<u>7,331</u>	
Total		45,658

Repayment of bond and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 132,135

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

Accrued Interest	6,374	
Amortization of Issuance Costs	(3,170)	
Amortization of Accretion	(52,583)	
Amortization of Premium	8,615	
Amortization of Accounting Loss	<u>(5,593)</u>	
Total		(46,357)

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

Compensated Absences	22,756	
Special Termination Benefits	<u>(157,050)</u>	
Total		<u>(134,294)</u>

*Change in Net Assets of Governmental Activities* (\$538,355)

See accompanying notes to the basic financial statements.

**McDonald Local School District**  
*Statement of Revenues, Expenditures and Changes*  
*In Fund Balance - Budget (Non-GAAP Basis) and Actual*  
*General Fund*  
*For the Fiscal Year Ended June 30, 2010*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Property Taxes	\$1,296,904	\$1,296,904	\$1,230,690	(\$66,214)
Intergovernmental	3,969,180	3,969,180	3,738,085	(231,095)
Interest	3,326	3,326	3,132	(194)
Tuition and Fees	1,058,130	1,058,130	1,045,871	(12,259)
Extracurricular Activities	6,000	6,000	10,952	4,952
Rentals	927	927	873	(54)
Charges for Services	13,704	13,704	12,906	(798)
Contributions and Donations	2,950	2,950	2,778	(172)
<i>Total Revenues</i>	<u>6,351,121</u>	<u>6,351,121</u>	<u>6,045,287</u>	<u>(305,834)</u>
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	3,957,998	3,939,807	3,939,807	0
Special	523,816	532,113	525,130	6,983
Vocational	52,632	52,971	52,356	615
Support Services:				
Pupils	259,824	255,327	255,327	0
Instructional Staff	85,513	84,033	84,033	0
Board of Education	23,925	25,965	25,011	954
Administration	542,965	542,855	538,402	4,453
Fiscal	322,316	368,929	337,969	30,960
Operation and Maintenance of Plant	545,024	577,789	561,393	16,396
Pupil Transportation	120,757	133,250	127,626	5,624
Central	22,328	22,507	21,942	565
Extracurricular Activities	158,379	180,481	155,638	24,843
Debt Service:				
Principal	1,450,000	1,450,000	1,450,000	0
Interest	69,177	69,177	69,094	83
<i>Total Expenditures</i>	<u>8,134,654</u>	<u>8,235,204</u>	<u>8,143,728</u>	<u>91,476</u>
<i>Excess of Revenues Under Expenditures</i>	<u>(1,783,533)</u>	<u>(1,884,083)</u>	<u>(2,098,441)</u>	<u>(214,358)</u>
<b>Other Financing Sources (Uses)</b>				
Proceeds of Notes	600,000	600,000	600,000	0
Solvency Assistance Advance Proceeds	2,001,000	2,001,000	2,001,000	0
Advances Out	(50,552)	(50,522)	(46,878)	3,644
Transfers Out	(5,000)	(5,000)	0	5,000
<i>Total Other Financing Sources (Uses)</i>	<u>2,545,448</u>	<u>2,545,478</u>	<u>2,554,122</u>	<u>8,644</u>
<i>Net Change in Fund Balance</i>	761,915	661,395	455,681	(205,714)
<i>Fund Balance (Deficit) Beginning of Year</i>	(396,778)	(396,778)	(396,778)	0
Prior Year Encumbrances Appropriated	117,022	117,022	117,022	0
<i>Fund Balance End of Year</i>	<u>\$482,159</u>	<u>\$381,639</u>	<u>\$175,925</u>	<u>(\$205,714)</u>

See accompanying notes to the basic financial statements.

**McDonald Local School District**

*Statement of Fiduciary Net Assets*

*Fiduciary Funds*

*June 30, 2010*

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	Private Purpose Trust	
	<u>Scholarship</u>	<u>Agency</u>
<b>Assets</b>		
Equity in Pooled Cash and Cash Equivalents	\$24,008	<u>\$31,338</u>
<b>Liabilities</b>		
Due to Students	<u>0</u>	<u>\$31,338</u>
<b>Net Assets</b>		
Held in Trust for Scholarships	<u>\$24,008</u>	

See accompanying notes to the basic financial statements.

**McDonald Local School District**  
*Statement of Changes in Fiduciary Net Assets*  
*Private Purpose Trust Fund*  
*For the Fiscal Year Ended June 30, 2010*

	Scholarship
<b>Additions</b>	
Contributions and Donations	\$4,250
Miscellaneous	21,748
<i>Total Additions</i>	25,998
<b>Deductions</b>	
College Scholarships Awarded	6,760
<i>Change in Net Assets</i>	19,238
<i>Net Assets Beginning of Year</i>	4,770
<i>Net Assets End of Year</i>	\$24,008

See accompanying notes to the basic financial statements.

**McDonald Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2010*

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**Note 1 - Description of the School District and Reporting Entity**

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

The School District serves an area of approximately 3 square miles in Trumbull County, including the Village of McDonald and portions of surrounding townships. The School District operates one elementary school and one comprehensive middle/high school. It is staffed by 60 certified and 33 classified personnel to provide services to 917 students and other community members.

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

The Financial Recovery Plan was adopted on February 22, 2010. Under State law, the School District must annually update its financial recovery plan. The recovery plan included reductions of administrative staff hours worked, 13 classified staff, 12 certified staff, 17 supplemental positions and an early retirement incentive plus other expenses in fiscal years 2011 and 2010. See note 23 for more information on the School District's fiscal emergency status.

*Reporting Entity*

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

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

The School District participates in three jointly governed organizations and one public entity pool. The organizations are the North Eastern Ohio Management Information Network, the Trumbull County Career and Technical Center, the North East Ohio Instructional Media Center, and the Trumbull County Schools Employee Insurance Benefits Consortium. These organizations are presented in Notes 15 and 16 to the basic financial statements.

**McDonald Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2010*

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**Note 2 - Summary of Significant Accounting Policies**

The financial statements of the School District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental activities unless those pronouncements conflict with or contradict GASB pronouncements. The more significant of the School District's accounting policies are described below.

***Basis of Presentation***

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

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

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

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

***Fund Accounting***

The School District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. In reporting its financial activities, the School District uses two categories of funds: governmental and fiduciary.

**McDonald Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2010*

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

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

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

**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 School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. The School District's only trust fund is a private purpose trust which accounts for a college scholarship program for students. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's agency fund accounts for student activities.

**Measurement Focus**

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

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

The private purpose trust fund is reported using the economic resources measurement focus.

**Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements and the statement presented for the fiduciary fund are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

**McDonald Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2010*

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

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year in which the taxes are levied (See Note 8). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

**Deferred Revenue** Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of June 30, 2010, but which were levied to finance fiscal year 2011 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

The 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.

***Budgetary Data***

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

**McDonald Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2010*

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levels within each fund. Prior to year end the Board of Education adopted appropriations which match actual expenditures plus encumbrances and requested a certificate of estimated resources to match actual revenues.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported as the original and final budgeted amounts in the budgetary statements reflect the amounts in the amended certificate when the original and final appropriations were passed by the Board of Education.

The appropriation resolution is subject to amendment by the Board throughout the year with the restriction that appropriations may not exceed estimated revenues. The amounts reported as the original budgeted amounts reflect the first appropriation for that fund that covered the entire fiscal year, including amounts automatically carried over from prior fiscal years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the fiscal year.

***Cash and Cash Equivalents***

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

During fiscal year 2010, the School District had no investments.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2010 amounted to \$3,132, which includes \$1,181 assigned from other School District funds.

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

***Inventory***

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

***Capital Assets***

The School District's only capital assets are general capital assets. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The School District was able to estimate the historical cost for the initial reporting of assets by backtrending (i.e., estimating the current replacement cost of the asset to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year.) Donated capital assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of five thousand dollars. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

**McDonald Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2010*

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:

Description	Governmental Activities Estimated Lives
Land Improvements	5 - 20 years
Building and Improvements	20 - 50 years
Furniture and Furniture	5 - 20 years
Vehicles	10 - 10 years

***Interfund Balances***

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental activities column of the statement of net assets.

***Compensated Absences***

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

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the School District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the School District's termination policy. The School District records a liability for accumulated unused sick leave for all employees at least 50 years of age with 10 years of service and all employees at any age with 20 years of service.

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

On the governmental fund financial statements, compensated absences are recognized as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "matured compensated absences payable" in the general fund.

***Accrued Liabilities and Long-term Obligations***

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

In general, governmental fund payables and accrued liabilities that once incurred, are paid in a timely manner and in full from current financial resources, and are reported as obligations of the funds. However, claims and judgments and compensated absences that will be paid from governmental funds are reported as a

**McDonald Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2010*

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liability in the fund financial statements only to the extent that they are due for payment during the current fiscal year. Bonds and capital leases are recognized as a liability on the fund financial statements when due.

***Internal Activity***

Internal events that are allocations of overhead expenses from one function to another or within the same function are eliminated on the Statement of Activities. Interfund payments for services provided and used are not eliminated.

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 financial statements.

***Fund Balance***

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

***Nonspendable*** The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of loans receivable, as well as property acquired for resale, unless the use of the proceeds from the collection of those receivables or from the sale of those properties is restricted, committed, or assigned.

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

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

***Assigned*** Amounts in the assigned fund balance classification are intended to be used by the School District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of the School District Board of Education.

***Unassigned*** Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

**McDonald Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2010*

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

***Net Assets***

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

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

***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.

***Bond Issuance Costs***

Bond issuance costs for underwriting fees for the refunding notes and bonds are being amortized using the straight-line method over the life of the agreement on the government-wide statements. The straight-line method of amortization is not materially different from the effective-interest method.

As permitted by State statute, the School District paid bond issuance costs from the bond proceeds and therefore does not consider that portion of the debt to be capital-related debt. That portion of the debt was offset against the unamortized bond issuance costs which were included in the determination of unrestricted net assets. Reporting both within the same element of net assets prevents one classification from being overstated while another is understated by the same amount.

***Deferred Loss on Refunding***

The difference between the reacquisition price (funds required to refund the old debt) of the refunding notes and bonds and the net carrying amount of the old debt, the deferred amount (loss) on refunding, is being amortized as a component of interest expense. This accounting loss is amortized over the remaining life of the old debt or the life of the new debt whichever is shorter and is presented net of the general obligation bonds payable on the statement of net assets.

***Bond Premiums***

On the government-wide financial statements, bond premiums are deferred and amortized over the term of the bonds using the straight line method. Bond premiums are presented as an increase of the face amount of the general obligation bonds payable. On fund financial statements, bond premiums are receipted in the year the bonds are issued.

**McDonald Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2010*

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***Estimates***

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

**Note 3 – Change in Accounting Principles and Restatement of Fund Balance**

***Change in Accounting Principles***

For fiscal year 2010, the School District has implemented Governmental Accounting Standard Board (GASB) Statement No. 51, “Accounting and Reporting for Intangible Assets”, Statement No. 53, “Accounting and Financial Reporting for Derivative Instruments”, Statement No. 54, “Fund Balance Reporting and Governmental Fund Type Definitions”, Statement No. 57, “OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans”, and Statement No. 58, “Accounting and Financial Reporting for Chapter 9 Bankruptcies”.

GASB Statement No. 51 establishes accounting and financial reporting requirements for intangible assets to reduce inconsistencies thereby enhancing the comparability of accounting and financial reporting of such assets among state and local governments. The implementation of this statement did not result in any change to the School District’s financial statements.

GASB Statement No. 53 enhances the usefulness and comparability of derivative instrument information reported by state and local governments. This Statement provides a comprehensive framework for the measurement, recognition, and disclosure of derivative instrument transactions. The implementation of this statement did not result in any change to the School District’s financial statements.

GASB Statement No. 54 enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The implementation of this statement resulted in the reclassification of certain funds and restatement of the School District’s financial statements.

GASB Statement No. 57 addresses issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans (that is, agent employers). The requirements in this Statement will allow more agent employers to use the alternative measurement method to produce actuarially based information for purposes of financial reporting and clarify that OPEB measures reported by agent multiple-employer OPEB plans and their participating employers should be determined at the same minimum frequency and as of a common date to improve the consistency of reporting with regard to funded status and funding progress information. The implementation of this statement did not result in any change in the School District’s financial statements.

GASB Statement No. 58 provides accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. The requirements in this Statement will provide more consistent recognition, measurement, display, and disclosure guidance for governments that file for Chapter 9 bankruptcy. The implementation of this statement did not result in any change in the School District’s financial statements.

**McDonald Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2010*

**Restatement of Prior Year's Fund Balance**

The implementation of GASB Statement No. 54 had the following effect on fund balances of the major and nonmajor funds as they were previously reported.

	General	Emergency Levy	Nonmajor Governmental Funds	Total Governmental Funds
Fund Balance at June 30, 2009	(\$2,145,376)	(\$164,170)	(\$162,104)	(\$2,471,650)
Change in Fund Structure	(174,734)	164,170	10,564	0
Adjusted Fund Balance at June 30, 2009	<u>(\$2,320,110)</u>	<u>\$0</u>	<u>(\$151,540)</u>	<u>(\$2,471,650)</u>

**Note 4 – Fund Balances**

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

Fund Balances	General	Nonmajor Governmental Funds	Total
<b><i>Nonspendable</i></b>			
Inventory	0	1,711	1,711
<b><i>Total Nonspendable</i></b>	<u>0</u>	<u>1,711</u>	<u>1,711</u>
<b><i>Restricted for</i></b>			
Athletics	0	32,997	32,997
Classroom Facilities Maintenance	0	26,454	26,454
Technology Improvements	0	6,759	6,759
Remedial Reading	0	3,523	3,523
Debt Service Payments	0	58,733	58,733
Capital Improvements	0	21,139	21,139
<b><i>Total Restricted</i></b>	<u>0</u>	<u>149,605</u>	<u>149,605</u>
<b><i>Committed to</i></b>			
Other Purposes	10,864	0	10,864
<b><i>Total Committed</i></b>	<u>10,864</u>	<u>0</u>	<u>10,864</u>
<b><i>Assigned to</i></b>			
FY 2011 Operations	920,975	0	920,975
Other Purposes	41,081	0	41,081
<b><i>Total Assigned</i></b>	<u>962,056</u>	<u>0</u>	<u>962,056</u>
<b><i>Unassigned (Deficit)</i></b>	<u>(3,435,566)</u>	<u>(62,013)</u>	<u>(3,497,579)</u>
<b><i>Total Fund Balances</i></b>	<u>(\$2,462,646)</u>	<u>\$89,303</u>	<u>(\$2,373,343)</u>

**McDonald Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2010*

**Note 5 - Budgetary Basis of Accounting**

While the School District is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are that:

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Encumbrances are treated as expenditures (budget) rather than restricted, committed, or assigned fund balance (GAAP).
4. Advances In and Advances Out are operating transactions (budget) as opposed to balance sheet transactions (GAAP).

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

Net Change in Fund Balance	
	General
GAAP Basis	(\$142,536)
Net Adjustment for Revenue Accruals	682,532
State Solvency Assistance Advance Proceeds	2,001,000
Net Adjustment for Expenditure Accruals	(1,975,013)
Advances Out	(46,878)
Encumbrances	(63,424)
Budget Basis	\$455,681

**Note 6 – Fund Deficits**

Fund balances at June 30, 2010, included the following individual fund deficits:

<b>General Fund</b>	<b>\$2,462,646</b>
 <i>Special Revenue Funds:</i>	
Food Service	52,737
Title I	7,151
Reducing Class Size	414

**McDonald Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2010*

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The general fund and special revenue funds have deficits caused by the recognition of expenditures on a modified accrual basis of accounting which are substantially greater than the expenditures recognized on a cash basis. The general fund is liable for any deficit in these funds and provides operating transfers when cash is required, not when accruals occur.

**Note 7 - Deposits and Investments**

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

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

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

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

Interim monies held by the School District can be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, 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 securities listed above;
4. Bonds and other obligations of the State of Ohio;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2);
7. The State Treasurer's investment pool (STAROhio); and
8. Commercial paper and bankers acceptances if training requirements have been met.

**McDonald Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2010*

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Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. Investments may only be made through specified dealers and institutions.

**Note 8 – Property Taxes**

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

Property taxes include amounts levied against all real property, public utility property and tangible personal property (used in business) located in the School District. Real property tax revenues received in calendar year 2010 represents collections of calendar year 2009 taxes. Real property taxes received in calendar year 2010 were levied after April 1, 2009, on the assessed value listed as of January 1, 2009, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenues received in calendar year 2010 represents collections of calendar year 2009 taxes. Public utility real and tangible personal property taxes received in calendar year 2010 became a lien December 31, 2008, were levied after April 1, 2009 and are collected in 2010 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2010 (other than public utility property tax) represents the collection of 2010 taxes levied against local and inter-exchange telephone companies. Tangible personal property tax on business inventory, manufacturing machinery and equipment, furniture and fixtures is no longer levied and collected. Tangible personal property taxes received from telephone companies in calendar year 2010 were levied after October 1, 2009, on the value as of December 31, 2009. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District receives property taxes from Trumbull County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2010, are available to finance fiscal year 2010 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2010 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

**McDonald Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2010*

The amount available as an advance at June 30, 2010, was \$15,424 in the general fund, \$208 in the classroom facilities maintenance special revenue fund, \$542 in the capital improvement fund and \$1,634 in the bond retirement fund. The amount available as an advance at June 30, 2009, was \$3,282 in the general fund, \$54 in the classroom facilities maintenance special revenue fund, \$142 in the capital improvement fund and \$388 in the bond retirement fund.

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

The assessed values upon which the fiscal year 2010 taxes were collected are:

	2009 Second Half Collections		2010 First Half Collections	
	Amount	Percent	Amount	Percent
Real Estate	\$52,536,540	96.24%	\$52,603,220	97.91%
Public Utility Personal	1,055,250	1.93	1,046,530	1.95
General Business Personal	994,680	1.82	76,455	0.14
Total	\$54,586,470	100.00%	\$53,726,205	100.00%
Full Tax Rate per \$1,000 of assessed valuation	\$51.45		\$56.45	

On November 3, 2009, the residents of the School District approved a 4.9 mills emergency levy to provide for the emergency requirements of the School District.

**Note 9 - Receivables**

Receivables at June 30, 2010, consisted of taxes, accounts (rent and student fees), interfund and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. All receivables except property taxes are expected to be received within one year. Property taxes, although ultimately collectible, include some portion of delinquencies that will not be collected within one year.

A summary of the principal items of intergovernmental receivables follows:

Intergovernmental Receivables	Amounts
Title I	\$14,236
Title VI-B	7,152
SERS	4,357
Title II-D	670
Total	\$26,415

**McDonald Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2010*

**Note 10 – Capital Assets**

Capital asset activity for the fiscal year ended June 30, 2010, was as follows:

	Balance June 30, 2009	Additions	Deletions	Balance June 30, 2010
<b>Nondepreciable Capital Assets</b>				
Land	\$311,600	\$0	\$0	\$311,600
<b>Depreciable Capital Assets</b>				
Land Improvements	541,458	0	0	541,458
Buildings and Improvements	19,922,204	0	0	19,922,204
Equipment and Furniture	650,043	0	(93,328)	556,715
Vehicles	231,318	70,000	0	301,318
<i>Total at Historical Cost</i>	<u>21,345,023</u>	<u>70,000</u>	<u>(93,328)</u>	<u>21,321,695</u>
Less: Accumulated Depreciation				
Land Improvements	(195,775)	(25,547)	0	(221,322)
Buildings and Improvements	(5,593,440)	(594,331)	0	(6,187,771)
Equipment and Furniture	(427,399)	(57,676)	93,328	(391,747)
Vehicles	(231,318)	(26,250)	0	(257,568)
<i>Total Accumulated Depreciation</i>	<u>(6,447,932)</u>	<u>(703,804) *</u>	<u>93,328</u>	<u>(7,058,408)</u>
<i>Depreciable Capital Assets, Net of Accumulated Depreciation</i>	<u>14,897,091</u>	<u>(633,804)</u>	<u>0</u>	<u>14,263,287</u>
<i>Governmental Activities Capital Assets, Net</i>	<u>\$15,208,691</u>	<u>(\$633,804)</u>	<u>\$0</u>	<u>\$14,574,887</u>

\* Depreciation expense was charged to governmental functions as follows:

Instruction	
Regular	\$634,752
Support Services	
Administration	23,316
Operation and Maintenance of Plant	12,837
Pupil Transportation	26,250
Operation of Food Service	3,098
Extracurricular Activities	3,551
Total Depreciation Expense	<u>\$703,804</u>

**McDonald Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2010*

**Note 11 – Fund Obligations**

The School District’s Note activity, including amount outstanding and interest rate, is as follows:

	Outstanding June 30, 2009	Additions	Deletions	Outstanding June 30, 2010
2008 4.75% Tax Anticipation Note	\$600,000	\$0	\$600,000	\$0
2009 5.00% Tax Anticipation Note	160,000	0	160,000	0
2009 5.00% Tax Anticipation Note	90,000	0	90,000	0
2010 5.00% Tax Anticipation Note	0	600,000	600,000	0
2010 0.00% State Solvency Assistance Advance	0	2,001,000	0	2,001,000
<b>Total Fund Obligations</b>	<b>850,000</b>	<b>2,601,000</b>	<b>1,450,000</b>	<b>2,001,000</b>

On June 20, 2008, the School District issued \$600,000 in tax anticipation notes for the purpose of paying current expenses for the general operations of the School District. These notes matured on June 30, 2009 but were not paid by the School District until January 31, 2010. The District was not in compliance with the provisions of the note covenants that require tax monies to be accumulated in a restricted account to ensure payment at maturity. The covenants require the Treasurer to maintain the restricted account until all debt charges on the note are paid.

On December 1, 2008, the School District issued \$160,000 in tax anticipation notes for the purpose of paying current expenses for the general operations of the School District. These notes matured on December 1, 2009.

On December 9, 2008, the School District issued \$90,000 in tax anticipation notes for the purpose of paying current expenses for the general operations of the School District. These notes matured on December 9, 2009.

On August 12, 2009, the School District issued \$600,000 in tax anticipation notes for the purpose of paying current expenses for the general operations of the School District. These notes matured on February 12, 2010.

During fiscal year 2010, the School District received an interest free State solvency assistance advance in the amount of \$2,001,000. The State solvency assistance advance will be paid from the general fund with school foundation revenue. A liability for the note is reflected in the general fund which received the proceeds. In fiscal years 2011 and 2012, the School District will pay \$1,000,500 a year to retire the solvency assistance advance.

**Note 12 - Interfund Balances**

Interfund balances at June 30, 2010, consist of an interfund receivable/payable between the general fund and the nonmajor governmental funds in the amount of \$46,878. These loans were made to support programs and projects in various special revenue funds pending the receipt of grant money that will be used to repay the loans. These loans are expected to be repaid in one year.

**McDonald Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2010*

**Note 13 – Long-Term Obligations**

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

Debt Issue	Interest Rate	Original Issue	Year of Maturity
2001 School Improvement Bonds:			
Capital Interest Serial Bonds	4.80% to 6.00%	\$2,000,000	2009
Capital Appreciation Bonds	37.32%	4,000	2011
2006 School Improvement Bonds:			
Capital Interest Serial Bonds	4.80% to 6.00%	\$1,205,000	2023
Capital Appreciation Bonds	37.32%	4,000	2019

Changes in long-term obligations of the School District during fiscal year 2010 were as follows:

Governmental Activities	Principal Outstanding June 30, 2009	Additions	Deductions	Principal Outstanding June 30, 2010	Amount Due in One Year
<b>General Obligation Bonds</b>					
2001 School Improvement Bonds					
Serial Bonds	\$80,000	\$0	(\$80,000)	\$0	\$0
Capital Appreciation Bonds	4,000	0	0	4,000	2,339
Accretion	83,004	35,502	0	118,506	82,661
<i>Total 2001 School Improvement Bonds</i>	<u>167,004</u>	<u>35,502</u>	<u>(80,000)</u>	<u>122,506</u>	<u>85,000</u>
2006 School Improvement Bonds					
Serial Bonds	1,145,000	0	(25,000)	1,120,000	30,000
Capital Appreciation Bonds	84,997	0	0	84,997	0
Accretion	39,445	17,081	0	56,526	0
Premium on Bonds	115,591	0	(8,615)	106,976	0
Loss on Refunding	(75,042)	0	5,593	(69,449)	0
<i>Total 2006 School Improvement Bonds</i>	<u>1,309,991</u>	<u>17,081</u>	<u>(28,022)</u>	<u>1,299,050</u>	<u>30,000</u>
<i>Total General Obligation Bonds</i>	<u>1,476,995</u>	<u>52,583</u>	<u>(108,022)</u>	<u>1,421,556</u>	<u>115,000</u>
<b>Other Long-term Obligations</b>					
Capital Leases	75,291	0	(27,135)	48,156	22,457
Special Termination Benefits	0	198,350	(41,300)	157,050	44,325
Compensated Absences	341,280	43,145	(65,901)	318,524	93,809
<i>Total Other Long-term Obligations</i>	<u>416,571</u>	<u>241,495</u>	<u>(134,336)</u>	<u>523,730</u>	<u>160,591</u>
<i>Total Governmental Activities Long-Term Liabilities</i>	<u>\$1,893,566</u>	<u>\$294,078</u>	<u>(\$242,358)</u>	<u>\$1,945,286</u>	<u>\$275,591</u>

In 2001, the School District issued \$2,004,000 in school improvement general obligation bonds which included serial and capital appreciation (deep discount) bonds in the amounts of \$2,000,000 and \$4,000, respectively. The general obligation bonds were issued for the purpose of the renovations to the high school and the construction of a new elementary school. The general obligation bonds will be retired from the debt service fund and mature December 2011.

**McDonald Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2010*

In 2006, the School District issued \$1,289,997 in school improvement general obligation bonds which included serial and capital appreciation (deep discount) bonds in the amounts of \$1,205,000 and \$84,997, respectively. The general obligation bonds were issued for the purpose of refunding a portion of the 2001 school improvement bonds to take advantage of lower interest rates. The general obligation bonds will be retired from the debt service fund and mature December 2023.

The proceeds of the new bonds were placed in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the School District's financial statements. On June 30, 2010, \$1,290,000 of the defeased bonds is still outstanding.

The capital lease will be paid out of the general fund. Special termination benefits will be paid out of the general fund. Compensated absences will be paid from the general fund and the food service and title I grant special revenue funds.

The overall debt margin of the School District as of June 30, 2010, was \$3,678,214 with an unvoted debt margin of \$53,650. Principal and interest requirements to retire general obligation bonds and capital appreciation outstanding at June 30, 2010, are as follows:

Fiscal Year Ending June 30	General Obligation Bonds			
	Serial		Capital Appreciation	
	Principal	Interest	Principal	Interest
2011	\$30,000	\$43,350	\$2,339	\$82,661
2012	30,000	42,240	1,661	83,339
2013	115,000	39,557	0	0
2014	120,000	35,210	0	0
2015	125,000	30,615	0	0
2016 - 2020	265,000	99,777	84,997	335,003
2021 - 2023	435,000	27,162	0	0
Total	<u>\$1,120,000</u>	<u>\$317,911</u>	<u>\$88,997</u>	<u>\$501,003</u>

**Note 14 – Capital Lease**

On June 26, 2007, the School District entered into a capitalized lease obligation for copier and printer equipment. This lease meets criteria for a capital lease as defined by Statement of Financial Accounting Standards No. 13 "Accounting for Leases" and has been recorded on the government-wide statements.

The asset acquired through this capital lease is as follows:

<i>Asset:</i>	
Equipment & Furniture	\$116,580
Less: Accumulated Depreciation	<u>(69,948)</u>
Total Book Value as of June 30, 2010	<u><u>\$46,632</u></u>

**McDonald Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2010*

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2010.

Fiscal Year Ending June 30,	Governmental Activities
2011	\$24,200
2012	26,400
Total Minimum Lease Payments	50,600
Less: Amount Representing Interest	(2,444)
Present Value of Net Minimum Lease Payments	\$48,156

**Note 15 - Jointly Governed Organizations**

**North Eastern 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 administrative and instructional functions among member districts. Each of the districts supports NEOMIN based upon a per pupil charge. McDonald Local School District paid \$34,453 to NEOMIN during fiscal year 2010.

The Governing board consists of ten members: The Trumbull and Ashtabula County superintendents (permanent members), three superintendents from Ashtabula County participating school districts, three superintendents from Trumbull County participating school districts, the fiscal agent or NEOMIN). The McDonald Local School District was not represented on the Governing Board during fiscal year 2010. The degree of control exercised by any participating school district is limited to its representation on the Governing Board. To obtain a copy of NEOMIN's financial statements, write to the Trumbull County Educational Service Center, 347 North Park Avenue, Warren, Ohio 44481.

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

**North East Ohio Instructional Media Center** The North East Ohio Instructional Media Center (NEOIMC) is a jointly governed organization among forty-five 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 School District. Each member pays a monthly premium based on the use of media materials.

NEOIMC is governed by the advisory committee made up a member from a parochial school, a joint vocational school, one 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. In fiscal year 2010, McDonald Local School District contributed \$1,172. Financial information can be obtained by contacting the Treasurer at the Trumbull County Educational Service Center, 347 North Park Avenue, Warren, Ohio 44481.

**McDonald Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2010*

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**Note 16 – Public Entity Pools**

*Shared Risk Pool*

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

**Note 17 - Risk Management**

***Property and Liability***

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The School District maintains comprehensive commercial insurance coverage through First Place Insurance, Ohio Casualty 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 \$24,670,057 with a deductible of \$1,000.

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

The School District has contracted with the Trumbull County Schools Employee Insurance Benefits Consortium to provide employee medical/surgical, dental, and prescription drug benefits. The Trumbull County Schools Employee Insurance Benefits Consortium is a shared risk pool comprised of sixteen Trumbull County school districts. Rates are set through an annual calculation process. The McDonald Local School District pays a monthly contribution which is placed in a common fund from which claim payments are made for all participating school districts. Medical Mutual is the third party administrator for the Consortium, Claims are paid for all participants regardless of claims flow. The board of directors has the right to return monies to an exiting district subsequent to the settlement of all expenses and claims. Employees can choose between two different medical/surgical/prescription plans. The School District pays medical/surgical/prescription drug premiums of \$1056 for family coverage and \$406 for single coverage per employee per month for the first option. The School District pays medical/surgical/prescription drug premiums of \$898 for family coverage and \$345 for single coverage per employee per month for the second option. If the School District were to withdraw from the Consortium, there would be no liability because premium levels fund a reserve for subsequent claim payments.

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

**McDonald Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2010*

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***Worker's Compensation***

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

**Note 18 – Defined Benefit Pension Plans**

***School Employees Retirement System***

Plan Description – The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer 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.

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2010, 12.78 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 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 School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2010, 2009 and 2008 were \$94,047, \$60,577, and \$58,738 respectively; 100 percent has been contributed for fiscal years 2010, 2009 and 2008.

***State Teachers Retirement System of Ohio***

Plan Description – The School 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](http://www.strsoh.org).

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member'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

**McDonald Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2010*

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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 of 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 the fiscal year ended June 30, 2010, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2009, the portion used to fund pension obligations was also 13 percent. 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.

The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2010, 2009 and 2008 were \$441,210, \$476,807, and \$448,414 respectively; 85.56 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008. Contributions to the DC and Combined Plans for fiscal year 2010 were \$8,282 made by the School District and \$5,916 made by the plan members.

## **Note 19 – Postemployment Benefits**

### ***School Employees Retirement System***

Plan Description – The School District participates in two cost-sharing multiple employer defined benefit OPEB plans administrated by the School Employees Retirement System 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 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 401h. For 2010, 1.22 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 2010, this amount was \$35,800. During fiscal year 2010, the School District paid \$10,296 in surcharge.

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 School District's contributions for health care for the fiscal years ended June 30, 2010, 2009 and 2008 were \$13,681, \$40,241, and \$36,775 respectively; 100 percent has been contributed for fiscal years 2010, 2009 and 2008.

**McDonald Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2010*

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The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2010, this actuarially required allocation was 0.76 percent of covered payroll. The School District's contributions for Medicare Part B for the fiscal years ended June 30, 2010, 2009 and 2008, were \$5,593, \$4,998, and \$4,232 respectively; 100 percent has been contributed for fiscal years 2010, 2009 and 2008.

***State Teachers Retirement System***

Plan Description – The School District contributes to the cost sharing multiple employer defined benefit Health 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](http://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 2010, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School District's contributions for health care for the fiscal years ended June 30, 2010, 2009 and 2008 were \$33,939 \$36,677 and \$34,493 respectively; 85.56 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

**Note 20 - Other Employee Benefits**

***Compensated Absences***

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees earn ten to twenty-five days of vacation per year, depending upon length of service and hours worked. Teachers and most administrators do not earn vacation. The Superintendent and the Treasurer earn 20 days of vacation annually which must be used by the end of each year. Teachers, administrators and classified employees earn sick leave at the rate of one and one-fourth days per month. Teachers, administrators and classified employees who reach 310 days of accumulated sick leave will then accumulate at .25 per month. Upon retirement and having been employed by the School District for at least ten years, all employees receive payment for one-fourth of the total sick leave accumulation, up to a maximum of 80 days for certified employees. There is no limit set for classified employees.

***Life Insurance Benefits***

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

***Retirement Incentive***

The School District Board of Education offered employees participation in a Retirement Incentive program in fiscal years 2008, 2009 and 2010. Participation was open to teachers who were eligible for service retirement under the State Teachers Retirement System (STRS) pursuant to O.R.C. 3307.38 and any applicable STRS regulations. In fiscal year 2008, six employees took the retirement incentive of \$20,000. In

**McDonald Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2010*

fiscal year 2009, three employees took the retirement incentive of \$15,000. In fiscal year 2010, four employees took the retirement incentive of \$14,775. Each retirement incentive will be paid out over a five year period.

**Note 21 - Contingencies**

*Grants*

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2010.

*Litigation*

The School District is party to legal proceedings. The School District is of the opinion that ultimate disposition of claims will not have a material effect, if any, on the financial condition of the School District.

**Note 22 - Set Asides**

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

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

	Capital Improvements	Textbooks Instructional Materials
Set-Aside Reserve Balance as of June 30, 2009	\$0	\$9,745
Current Year Set-aside Requirement	153,792	153,792
Offsets	(209,949)	0
Qualifying Disbursements	(1,378)	(119,372)
Total	(\$57,535)	\$44,165
Set-aside Balance Carried Forward to Future Fiscal Years	\$0	\$44,165
Set-aside Balance as of June 30, 2010	\$0	\$0

**McDonald Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2010*

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The School District, under Ohio Revised Code 3315.17 and 3315.18, elected to suspend contributions into the textbooks and capital acquisitions for fiscal year 2010. Although the School District had qualifying disbursements and offsets during the fiscal year that reduced the set-aside amount to below zero for the capital acquisitions set-aside, this amount may not be used to reduce the set-aside requirement for future fiscal years. This negative balance is therefore not presented as being carried forward to future fiscal years.

**Note 23 – Financial Difficulties**

On October 15, 2009, the Auditor of State declared the School District in fiscal emergency. Many factors have contributed to the School District's 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 School District has incurred significant debt as the result of an escalation in borrowing to meet operational expenses beginning in fiscal year 2007. The School District has passed an emergency operating levy which is expected to generate \$260,000 annually during fiscal year 2011.

During Fiscal Year 2010, the School District marked in conjunction with the Financial Planning and Supervision Commission to make significant reductions in Fiscal Year 2011 and cut costs as much as possible for Fiscal Year 2010. The School District anticipates placing a tax levy on the ballot for approval during Fiscal Year 2011 to generate additional revenue.

MCDONALD LOCAL SCHOOL DISTRICT  
TRUMBULL COUNTY

FEDERAL AWARDS EXPENDITURES SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2010

Federal Grantor/ Pass Through Grantor Program Title	Grant Year	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
<b>U.S. DEPARTMENT OF AGRICULTURE</b>						
<i>Passed Through Ohio Department of Education:</i>						
<i>Child Nutrition Cluster:</i>						
Non-Cash Assistance (Food Distribution):						
National School Lunch Program	2010	10.555		\$7,969		\$7,969
Cash Assistance:						
National School Lunch Program	2010	10.555	\$52,682		\$52,682	
<i>Total Child Nutrition Cluster</i>			52,682	7,969	52,682	7,969
Total U.S. Department of Agriculture			52,682	7,969	52,682	7,969
<b>U.S. DEPARTMENT OF EDUCATION</b>						
<i>Passed Through Ohio Department of Education:</i>						
<i>Title 1, Part A Cluster:</i>						
Grants to Local Educational Agencies - ESEA Title 1	2010	84.010	68,894		68,894	
ARRA - Title I School Subsidy	2010	84.389	3,905		3,905	
<i>Total - Title 1, Part A Cluster</i>			72,799		72,799	
<i>Special Education Cluster:</i>						
Special Education Grants to States - (IDEA Part B)	2010	84.027	151,831		151,831	
ARRA - IDEA Part B	2010	84.391	167,563		167,563	
<i>Total Special Education Cluster</i>			319,394		319,394	
Safe and Drug Free Schools Grant	2010	84.186	2,035		2,035	
Innovative Educational Program Strategies	2009	84.298	885		983	
Technology State Grants - Title II-D	2010	84.318	74		565	
Improving Teacher Quality State Grants - Title II-A	2010	84.367	25,502		25,502	
ARRA State Fiscal Stabilization Fund	2010	84.394	236,682		236,682	
Total U.S. Department of Education			657,371		657,960	
<b>Totals</b>			<b>\$710,053</b>	<b>\$7,969</b>	<b>\$710,642</b>	<b>\$7,969</b>

The accompanying notes to this schedule are an integral part of this schedule.

**MCDONALD LOCAL SCHOOL DISTRICT  
TRUMBULL COUNTY**

**NOTES TO THE FEDERAL AWARDS EXPENDITURES SCHEDULE  
FISCAL YEAR ENDED JUNE 30, 2010**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Federal Awards Expenditures Schedule (the Schedule) reports the McDonald Local School District (the District) federal award programs' receipts and disbursements. The schedule has been prepared on the cash basis of accounting.

**NOTE B - CHILD NUTRITION CLUSTER**

The District commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the District assumes it expends federal monies first.

**NOTE C – FOOD DONATION PROGRAM**

Program regulations do not require the District to maintain separate inventory records for purchased food versus food commodities it receives from the U.S. Department of Agriculture. The District reports commodities consumed on the Schedule at the entitlement value.

**NOTE D - MATCHING REQUIREMENTS**

Certain Federal programs require the District to contribute non-Federal funds (matching funds) to support the Federally-funded programs. The District has met its matching requirements. The Schedule does not include the expenditure of non-Federal matching funds.

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# Dave Yost • Auditor of State

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of McDonald Local School District, Trumbull County, (the District) as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements and have issued our report thereon dated June 9, 2011 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' *Government 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 the purpose of expressing our opinions on the financial statements, but not for the purpose of opining on the effectiveness of the District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the District's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and timely corrected.

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

### **Compliance and Other Matters**

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, 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 an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2010-001.

We also noted certain matters not requiring inclusion in this report that we reported to the District's management in a separate letter dated June 9, 2011.

The District's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the District's response and, accordingly, we express no opinion on it.

We intend this report solely for the information and use of management, the audit committee, Board of Education, and federal awarding agencies and pass-through entities and others within the District. We intend it for no one other than these specified parties.

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

**Dave Yost**  
Auditor of State

June 9, 2011



# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

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

To the Board of Education:

### Compliance

We have audited the compliance of McDonald Local School District (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of McDonald Local School District's major federal programs for the year ended June 30, 2010. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the McDonald Local School District complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2010.

### Internal Control Over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could directly and materially affect a major federal program, to determine our auditing procedures for the purpose of expressing our opinion on compliance, and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the District's internal control over compliance.

Voinovich Government Center, 242 Federal Plaza W. Suite 302, Youngstown, Ohio 44503-1293  
Phone: 330-797-9900 or 800-443-9271 Fax: 330-797-9949

[www.auditor.state.oh.us](http://www.auditor.state.oh.us)

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected.

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

We intend this report solely for the information and use of the audit committee, management, Board of Education and others within the entity, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping initial "D".

**Dave Yost**  
Auditor of State

June 9, 2011

**MCDONALD LOCAL SCHOOL DISTRICT  
TRUMBULL COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2010**

**1. SUMMARY OF AUDITOR'S RESULTS**

<i>(d)(1)(i)</i>	<b>Type of Financial Statement Opinion</b>	Unqualified
<i>(d)(1)(ii)</i>	<b>Were there any material control weaknesses reported at the financial statement level (GAGAS)?</b>	No
<i>(d)(1)(ii)</i>	<b>Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?</b>	No
<i>(d)(1)(iii)</i>	<b>Was there any reported material noncompliance at the financial statement level (GAGAS)?</b>	Yes
<i>(d)(1)(iv)</i>	<b>Were there any material internal control weaknesses reported for major federal programs?</b>	No
<i>(d)(1)(iv)</i>	<b>Were there any significant deficiencies in internal control reported for major federal programs?</b>	No
<i>(d)(1)(v)</i>	<b>Type of Major Programs' Compliance Opinion</b>	Unqualified
<i>(d)(1)(vi)</i>	<b>Are there any reportable findings under § .510(a)?</b>	No
<i>(d)(1)(vii)</i>	<b>Major Programs (list): Special Education Cluster Title VI-B State Fiscal Stabilization Fund</b>	CFDA No. 84.027 and 84.391 CFDA No. 84.394
<i>(d)(1)(viii)</i>	<b>Dollar Threshold: Type A/B Programs</b>	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	<b>Low Risk Auditee?</b>	No

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

**FINDING NUMBER 2010-001**

**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 prior 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.

**FINDING NUMBER 2010-001  
(Continued)**

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 incurred \$9,000 in bank and legal fees and \$15,250 in additional interest and fiscal charges. 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.

<b>3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS</b>
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**None**

**MCDONALD LOCAL SCHOOL DISTRICT  
TRUMBULL COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
OMB CIRCULAR A -133 § .315 (b)  
JUNE 30, 2010**

<b>Finding Number</b>	<b>Finding Summary</b>	<b>Fully Corrected?</b>	<b>Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i></b>
2009-001	The District violated a tax revenue note covenant 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, the payment date occurred during fiscal year 2010.	Finding is again issued in the Schedule of Findings at June 30, 2010.
2009-002	The District violated a tax anticipation note covenant by failing to pay the note at maturity.	Yes	Finding no longer valid.
2009-003	The District had six funds with negative cash fund balances at June 30, 2009	Yes	Finding no longer valid.
2009-004	The District's five-year forecast was not reasonably stated nor approved by the Board	Yes	Finding no longer valid.
2009-005	Certain deficiencies occurred within the cash reconciliation process which indicated an ineffective system of internal accounting controls.	No, the same deficiencies occurred during the first two months of fiscal year 2010.	The finding has been reported in the management letter at June 30, 2010.
2009-006	The District had two funds whose expenditures plus encumbrances exceeded appropriations.	Yes	Finding no longer valid.
2009-007	The former District Treasurer had not provided the required financial reports and other information to the Board.	No, the situation occurred during the first two months of fiscal year 2010 until the former Treasurer left the District.	The finding has been reported in the management letter at June 30, 2010.

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# Dave Yost • Auditor of State

**MCDONALD LOCAL SCHOOL DISTRICT**

**TRUMBULL COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
JUNE 28, 2011**