



Dave Yost • Auditor of State

**MCDONALD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY**

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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, each major fund, and the aggregate remaining fund information of McDonald Local School District, Trumbull County, Ohio (the District), as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of McDonald Local School District, Trumbull County, Ohio, as of June 30, 2011, 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 November 21, 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

November 21, 2011

McDonald Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
Unaudited

As management of the McDonald Local School District (the School District), we offer readers of the School District's financial statements this narrative and analysis of the financial activities of the School District for the fiscal year ended June 30, 2011. 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 increased due to an increase in tax revenues as a result of the collection of the emergency levy revenues and a decrease in expenditures.
- The School District relies heavily on general revenues to support its operations. Grants and entitlement revenues increased due to the School District receiving greater amounts of homestead and rollback reimbursement revenues over fiscal year 2010.
- 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.
- The School District's enrollment stayed consistent from fiscal year 2010 to fiscal year 2011. There was a small decrease of a few students in fiscal year 2011.
- The general fund had an increase in fund balance due mainly to increases in intergovernmental revenue and 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
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Unaudited

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

The government-wide financial statements can be found on pages 12-13 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 14-18 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 19-20 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 21-44 of this report.

McDonald Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
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 2011 compared to 2010.

Table 1
 Net Assets
 Governmental Activities

	<u>2011</u>	<u>2010</u>	<u>Change</u>
Assets			
Current and Other Assets	\$3,052,586	\$2,241,048	\$811,538
Capital Assets, Net	<u>13,951,407</u>	<u>14,574,887</u>	<u>(623,480)</u>
<i>Total Assets</i>	<u>17,003,993</u>	<u>16,815,935</u>	<u>188,058</u>
Liabilities			
Current Liabilities	3,508,196	4,377,814	(869,618)
Long-Term Liabilities			
Due Within One Year	220,124	275,591	(55,467)
Due In More Than One Year	<u>1,585,986</u>	<u>1,669,695</u>	<u>(83,709)</u>
<i>Total Liabilities</i>	<u>5,314,306</u>	<u>6,323,100</u>	<u>(1,008,794)</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	12,695,657	13,210,758	(515,101)
Restricted for:			
Capital Projects	65,023	27,028	37,995
Debt Service	75,333	181,638	(106,305)
Other Purposes	115,440	68,652	46,788
Unrestricted (Deficit)	<u>(1,261,766)</u>	<u>(2,995,241)</u>	<u>1,733,475</u>
<i>Total Net Assets</i>	<u>\$11,689,687</u>	<u>\$10,492,835</u>	<u>\$1,196,852</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 excess carryover of a Solvency assistance loan which was received during fiscal year 2010. The increase in property taxes receivable can be contributed to the School District receiving an entire year of collections on the 4.9 mills emergency levy which the School District began collecting in the second half of fiscal year 2010. The decrease in capital assets was due to an additional year of depreciation offset by current year additions.

Total liabilities decreased during fiscal year 2011 due to decreases in accounts payable and accrued wages as a result of fewer employees.

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 2011 and 2010.

McDonald Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
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Table 2
Change in Net Assets
Governmental Activities

	2011	2010	Change
Program Revenues			
Charges for Services and Sales	\$1,227,917	\$1,231,902	(\$3,985)
Operating Grants and Contributions	949,538	774,507	175,031
Capital Grants	0	22,153	(22,153)
<i>Total Program Revenues</i>	<u>2,177,455</u>	<u>2,028,562</u>	<u>148,893</u>
General Revenues			
Property Taxes	1,577,808	1,489,271	88,537
Grants and Entitlements	3,811,217	3,764,847	46,370
Investment Earnings	2,796	3,132	(336)
Miscellaneous	1,695	0	1,695
<i>Total General Revenues</i>	<u>5,393,516</u>	<u>5,257,250</u>	<u>136,266</u>
<i>Total Revenues</i>	<u>7,570,971</u>	<u>7,285,812</u>	<u>285,159</u>
Program Expenses			
Instruction:			
Regular	3,788,310	4,522,258	733,948
Special	489,658	652,380	162,722
Vocational	19,426	50,304	30,878
Support Services			
Pupils	291,074	423,201	132,127
Instructional Staff	12,055	74,670	62,615
Board of Education	14,205	22,332	8,127
Administration	459,457	501,753	42,296
Fiscal	178,008	309,392	131,384
Operation and Maintenance of Plant	551,840	683,924	132,084
Pupil Transportation	74,360	86,292	11,932
Central	31,685	24,046	(7,639)
Operation of Non-Instructional Services	3,098	0	(3,098)
Operation of Food Service	108,355	118,846	10,491
Extracurricular Activities	246,812	223,341	(23,471)
Interest and Fiscal Charges	105,776	131,428	25,652
<i>Total Program Expenses</i>	<u>6,374,119</u>	<u>7,824,167</u>	<u>1,450,048</u>
<i>Change in Net Assets</i>	1,196,852	(538,355)	1,735,207
Net Assets Beginning of Year	<u>10,492,835</u>	<u>11,031,190</u>	<u>(538,355)</u>
Net Assets End of Year	<u>\$11,689,687</u>	<u>\$10,492,835</u>	<u>\$1,196,852</u>

McDonald Local School District
Management's Discussion and Analysis
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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 2011 compared to 2010.

Table 3
Total and Net Cost of Program Services
Governmental Activities

	2011		2010	
	Total Cost of Service	Net Cost of Service	Total Cost of Service	Net Cost of Service
Instruction:				
Regular	\$3,788,310	\$2,216,224	\$4,522,258	\$3,319,883
Special	489,658	489,658	652,380	503,456
Vocational	19,426	19,426	50,304	50,304
Support Services:				
Pupils	291,074	144,831	423,201	271,369
Instructional Staff	12,055	12,055	74,670	74,670
Board of Education	14,205	14,205	22,332	22,332
Administration	459,457	436,309	501,753	481,228
Fiscal	178,008	178,008	309,392	309,392
Operation and Maintenance of Plant	551,840	359,170	683,924	395,824
Pupil Transportation	74,360	74,360	86,292	86,292
Central	31,685	31,685	24,046	24,046
Operation of Non-Instructional Services	3,098	3,098	0	0
Operation of Food Service	108,355	(14,154)	118,846	2,318
Extracurricular Activities	246,812	126,013	223,341	123,063
Interest and Fiscal Charges	105,776	105,776	131,428	131,428
Total	\$6,374,119	\$4,196,664	\$7,824,167	\$5,795,605

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

Financial Analysis of the Government's Funds

Governmental Funds Information about the School District's major funds begins on page 14. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$7,540,370 and expenditures of \$5,984,861. The general fund had an increase in fund balance due mainly to a decrease in expenditures due to the reduction of employees. 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.

McDonald Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
Unaudited

General Fund Budgeting Highlights

The School District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant fund to be budgeted is the main operating fund of the School District, the general fund. During the course of fiscal year 2011, 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 less property taxes and grant revenue received than expected. The final budget appropriations were lower than the original budget appropriations of the general fund. The change was attributed to decreases in expenditures for regular instruction, 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 2011 values compared to fiscal 2010.

Table 4
 Capital Assets at June 30
 Governmental Activities

	2011	2010
Land	\$311,600	\$311,600
Land Improvements	294,589	320,136
Buildings and Improvements	13,140,574	13,734,433
Furniture and Fixtures	169,644	164,968
Vehicles	35,000	43,750
Total Capital Assets	\$13,951,407	\$14,574,887

The decrease in capital assets was due to an additional year of depreciation offset by a small amount of current year additions for copiers and printers as well as handicapped playground equipment at Roosevelt School. 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, 2011
Unaudited

Debt

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

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

	2011	2010
2001 School Improvement Bonds	\$71,632	\$122,506
2006 School Improvement Bonds	1,285,454	1,299,050
Capital Leases	80,774	48,156
Total	\$1,437,860	\$1,469,712

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 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 two Emergency Levies, 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, 2011

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	\$931,182
Accounts Receivable	89
Intergovernmental Receivable	39,840
Inventory Held for Resale	1,882
Materials and Supplies Inventory	477
Property Taxes Receivable	2,042,929
Deferred Charges	36,187
Nondepreciable Capital Assets	311,600
Depreciable Capital Assets, Net	13,639,807
<i>Total Assets</i>	<u>17,003,993</u>
Liabilities	
Accounts Payable	12,213
Accrued Wages and Benefits	476,565
Intergovernmental Payable	129,004
Matured Compensated Absences Payable	51,130
Deferred Revenue	1,835,218
Accrued Interest Payable	3,566
Notes Payable	1,000,500
Long-Term Liabilities:	
Due Within One Year	220,124
Due In More Than One Year	1,585,986
<i>Total Liabilities</i>	<u>5,314,306</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	12,695,657
Restricted for:	
Capital Projects	65,023
Debt Service	75,333
Other Purposes	115,440
Unrestricted (Deficit)	(1,261,766)
<i>Total Net Assets</i>	<u><u>\$11,689,687</u></u>

See accompanying notes to the basic financial statements

McDonald Local School District
Statement of Activities
For the Fiscal Year Ended June 30, 2011

	Program Revenues		Net (Expense)	
	Expenses	Charges for Services and Sales	Revenue and Changes in Net Assets	
		Operating Grants and Contributions	Governmental Activities	
Governmental Activities				
Instruction:				
Regular	\$3,788,310	\$1,040,159	\$531,927	(\$2,216,224)
Special	489,658	0	0	(489,658)
Vocational	19,426	0	0	(19,426)
Support Services:				
Pupils	291,074	0	146,243	(144,831)
Instructional Staff	12,055	0	0	(12,055)
Board of Education	14,205	0	0	(14,205)
Administration	459,457	4,303	18,845	(436,309)
Fiscal	178,008	0	0	(178,008)
Operation and Maintenance of Plant	551,840	0	192,670	(359,170)
Pupil Transportation	74,360	0	0	(74,360)
Central	31,685	0	0	(31,685)
Operation of Non-Instructional Service	3,098	0	0	(3,098)
Operation of Food Service	108,355	63,945	58,564	14,154
Extracurricular Activities	246,812	119,510	1,289	(126,013)
Interest and Fiscal Charges	105,776	0	0	(105,776)
Totals	\$6,374,119	\$1,227,917	\$949,538	(4,196,664)

General Revenues

Property Taxes Levied for:

General Purposes	1,375,371
Debt Service	136,792
Capital Outlay	47,434
Classroom Facilities Maintenance	18,211
Grants and Entitlements not Restricted to Specific Programs	3,811,217
Investment Earnings	2,796
Miscellaneous	1,695

Total General Revenues 5,393,516

Change in Net Assets 1,196,852

Net Assets Beginning of Year 10,492,835

Net Assets End of Year \$11,689,687

See accompanying notes to the basic financial statements

McDonald Local School District

Balance Sheet

Governmental Funds

June 30, 2011

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets			
Equity in Pooled Cash and Cash Equivalents	\$694,535	\$236,647	\$931,182
Accounts Receivable	64	25	89
Intergovernmental Receivable	23,402	16,438	39,840
Interfund Receivable	26,873	0	26,873
Inventory Held for Resale	0	1,882	1,882
Materials and Supplies Inventory	0	477	477
Property Taxes Receivable	1,818,951	223,978	2,042,929
<i>Total Assets</i>	<u>\$2,563,825</u>	<u>\$479,447</u>	<u>\$3,043,272</u>
Liabilities and Fund Balances			
Liabilities			
Accounts Payable	\$11,515	\$698	\$12,213
Accrued Wages and Benefits	409,962	66,603	476,565
Interfund Payable	0	26,873	26,873
Matured Compensated Absences Payable	51,130	0	51,130
Intergovernmental Payable	104,712	24,292	129,004
Deferred Revenue	1,837,846	228,852	2,066,698
Notes Payable	1,000,500	0	1,000,500
<i>Total Liabilities</i>	<u>3,415,665</u>	<u>347,318</u>	<u>3,762,983</u>
Fund Balances			
Nonspendable	0	2,359	2,359
Restricted	0	233,116	233,116
Committed	4,201	0	4,201
Assigned	4,905	0	4,905
Unassigned (Deficit)	(860,946)	(103,346)	(964,292)
<i>Total Fund Balances (Deficit)</i>	<u>(851,840)</u>	<u>132,129</u>	<u>(719,711)</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$2,563,825</u>	<u>\$479,447</u>	<u>\$3,043,272</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, 2011*

Total Governmental Fund Balances (\$719,711)

*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. 13,951,407

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

Property Taxes	202,649
Intergovernmental	<u>28,831</u>

Total 231,480

Bond issuance costs will be amortized over the life of the bonds on
 the statement of net assets. 36,187

In the statement of activities, interest is accrued on outstanding
 bonds, whereas in governmental funds, an interest
 expenditure is reported when due. (3,566)

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

General Obligation Bonds	(1,357,086)
Capital Leases	(80,774)
Special Termination Benefits	(111,825)
Compensated Absences	<u>(256,425)</u>

Total (1,806,110)

Net Assets of Governmental Activities \$11,689,687

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, 2011

	General	Other Governmental Funds	Total Governmental Funds
Revenues			
Property Taxes	\$1,362,579	\$206,128	\$1,568,707
Intergovernmental	3,765,879	972,826	4,738,705
Interest	2,323	473	2,796
Tuition and Fees	1,034,915	0	1,034,915
Extracurricular Activities	4,553	119,510	124,063
Contributions and Donations	50	500	550
Charges for Services	4,744	63,945	68,689
Rentals	250	0	250
Miscellaneous	0	1,695	1,695
<i>Total Revenues</i>	<u>6,175,293</u>	<u>1,365,077</u>	<u>7,540,370</u>
Expenditures			
Current:			
Instruction:			
Regular	2,623,209	587,276	3,210,485
Special	512,871	0	512,871
Vocational	19,426	0	19,426
Support Services:			
Pupils	152,249	146,243	298,492
Instructional Staff	12,055	0	12,055
Board of Education	14,205	0	14,205
Administration	392,501	18,696	411,197
Fiscal	174,292	3,943	178,235
Operation and Maintenance of Plant	371,279	177,224	548,503
Pupil Transportation	47,227	18,383	65,610
Central	31,685	0	31,685
Operation of Non-Instructional Services	4,210	0	4,210
Operation of Food Service	0	103,829	103,829
Extracurricular Activities	134,954	108,307	243,261
Capital Outlay	98,123	0	98,123
Debt Service:			
Principal Retirement	65,505	32,339	97,844
Interest and Fiscal Charges	8,819	43,350	52,169
Capital Appreciation Bonds Interest	0	82,661	82,661
<i>Total Expenditures</i>	<u>4,662,610</u>	<u>1,322,251</u>	<u>5,984,861</u>
<i>Excess of Revenues Over Expenditures</i>	1,512,683	42,826	1,555,509
Other Financing Sources			
Inception of Capital Lease	98,123	0	98,123
<i>Net Change in Fund Balances</i>	1,610,806	42,826	1,653,632
<i>Fund Balances (Deficit) Beginning of Year</i>	<u>(2,462,646)</u>	<u>89,303</u>	<u>(2,373,343)</u>
<i>Fund Balances (Deficit) End of Year</i>	<u>(\$851,840)</u>	<u>\$132,129</u>	<u>(\$719,711)</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, 2011*

Net Change in Fund Balances - Total Governmental Funds \$1,653,632

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	105,275	
Depreciation	<u>(682,123)</u>	
Total		(576,848)

Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. (46,632)

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

Property Taxes	9,101	
Intergovernmental	<u>21,500</u>	
Total		30,601

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. 180,505

Other financing sources in the governmental funds, such as inception of capital lease, increase long-term liabilities in the statement of net assets. (98,123)

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	93	
Amortization of Issuance Costs	(3,170)	
Amortization of Accretion	(53,552)	
Amortization of Premium	8,615	
Amortization of Accounting Loss	<u>(5,593)</u>	
Total		(53,607)

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	62,099	
Special Termination Benefits	<u>45,225</u>	
Total		<u>107,324</u>

Change in Net Assets of Governmental Activities \$1,196,852

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, 2011

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Property Taxes	\$1,264,199	\$1,380,122	\$1,373,496	(\$6,626)
Intergovernmental	3,466,205	3,784,046	3,765,879	(18,167)
Interest	2,138	2,334	2,323	(11)
Tuition and Fees	952,560	1,039,907	1,034,915	(4,992)
Extracurricular Activities	4,230	3,651	4,553	902
Contributions and Donations	46	50	50	0
Charges for Services	5,228	5,708	5,680	(28)
Rentals	230	251	250	(1)
<i>Total Revenues</i>	<u>5,694,836</u>	<u>6,216,069</u>	<u>6,187,146</u>	<u>(28,923)</u>
Expenditures				
Current:				
Instruction:				
Regular	3,269,277	3,084,297	2,767,925	316,372
Special	603,332	569,195	511,956	57,239
Vocational	27,407	25,856	23,191	2,665
Support Services:				
Pupils	199,635	188,339	168,962	19,377
Instructional Staff	23,729	22,227	20,079	2,148
Board of Education	18,925	18,014	18,014	0
Administration	479,043	439,364	396,473	42,891
Fiscal	269,435	254,191	229,326	24,865
Operation and Maintenance of Plant	450,944	425,429	388,428	37,001
Pupil Transportation	85,023	80,213	72,368	7,845
Central	37,119	35,019	31,409	3,610
Other Operation of Non-Instructional Services	4,975	4,694	4,210	484
Extracurricular Activities	159,742	150,704	135,169	15,535
Debt Service:				
Principal	1,000,599	1,000,599	1,000,500	99
<i>Total Expenditures</i>	<u>6,629,185</u>	<u>6,298,141</u>	<u>5,768,010</u>	<u>530,131</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(934,349)</u>	<u>(82,072)</u>	<u>419,136</u>	<u>501,208</u>
Other Financing Sources (Uses)				
Advances In	46,878	46,878	46,878	0
Advances Out	(44,503)	(40,369)	(26,873)	13,496
<i>Total Other Financing Sources (Uses)</i>	<u>2,375</u>	<u>6,509</u>	<u>20,005</u>	<u>13,496</u>
<i>Net Change in Fund Balance</i>	(931,974)	(75,563)	439,141	514,704
<i>Fund Balance Beginning of Year</i>	175,925	175,925	175,925	0
Prior Year Encumbrances Appropriated	63,424	63,424	63,424	0
<i>Fund Balance (Deficit) End of Year</i>	<u>(\$692,625)</u>	<u>\$163,786</u>	<u>\$678,490</u>	<u>\$514,704</u>

See accompanying notes to the basic financial statements

McDonald Local School District

Statement of Fiduciary Net Assets

Fiduciary Funds

June 30, 2011

	<u>Private Purpose Trust</u>	
	<u>Scholarship</u>	<u>Agency</u>
Assets		
Equity in Pooled Cash and Cash Equivalents	\$130,081	<u>\$26,812</u>
Liabilities		
Due to Students	<u>0</u>	<u>\$16,812</u>
Net Assets		
Held in Trust for Scholarships	<u>\$130,081</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, 2011

	Scholarship
Additions	
Contributions and Donations	\$131,096
Deductions	
College Scholarships Awarded	25,023
<i>Change in Net Assets</i>	106,073
<i>Net Assets Beginning of Year</i>	24,008
<i>Net Assets End of Year</i>	\$130,081

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, 2011

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 53 certified and 15 classified personnel to provide services to 910 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 two 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 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, 2011

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, 2011

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

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

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 college scholarship donations 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, 2011

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, 2011, but which were levied to finance fiscal year 2012 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, 2011

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. The School District had no investments during the fiscal year or at fiscal year end.

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 2011 amounted to \$2,323, which includes \$238 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, 2011

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 a liability and expenditure 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, 2011

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

Fund Balance

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

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

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

Committed The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by 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.

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.

McDonald Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

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 received in the year the bonds are issued.

Estimates

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

McDonald Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

Note 3 – Change in Accounting Principles

For fiscal year 2011, the School District has implemented Governmental Accounting Standard Board (GASB) Statement No. 59, “Financial Instruments Omnibus”. GASB Statement No. 59 addresses significant practice issues that have arisen when accounting for financial instruments by updating and improving existing standards regarding financial reporting of certain financial instruments and external investment pools. The implementation of this statement did not result in any change in the School District’s financial statements.

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	Other Governmental Funds	Total
<i>Nonspendable</i>			
Inventory	0	2,359	2,359
<i>Restricted for</i>			
Athletics	0	26,178	26,178
Classroom Facilities Maintenance	0	69,765	69,765
Technology Improvements	0	7,849	7,849
Remedial Reading	0	5,592	5,592
Debt Service Payments	0	64,090	64,090
Capital Improvements	0	59,642	59,642
<i>Total Restricted</i>	<u>0</u>	<u>233,116</u>	<u>233,116</u>
<i>Committed to</i>			
Other Purposes	4,201	0	4,201
<i>Assigned to</i>			
Other Purposes	4,905	0	4,905
<i>Unassigned (Deficit)</i>	<u>(860,946)</u>	<u>(103,346)</u>	<u>(964,292)</u>
<i>Total Fund Balances</i>	<u>(\$851,840)</u>	<u>\$132,129</u>	<u>(\$719,711)</u>

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:

McDonald Local School District
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For the Fiscal Year Ended June 30, 2011

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	\$1,610,806
Net Adjustment for Revenue Accruals	(86,270)
Advances In	46,878
Net Adjustment for Expenditure Accruals	(1,089,355)
Advances Out	(26,873)
Encumbrances	(16,045)
Budget Basis	\$439,141

Note 6 – Fund Deficits and Compliance

Fund Deficits

Fund balances at June 30, 2011, included the following individual fund deficits:

General Fund	\$851,840
<i>Special Revenue Funds:</i>	
Food Service	33,638
Education Jobs	55,047
State Fiscal Stabilization	12,252
Reducing Class Size	50

The general fund has a deficit fund balance of \$851,840, 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 School District has developed a strategy to stabilize its deficit fund balance. See note 23 for further information.

McDonald Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

The 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 transfers when cash is required, not when accruals occur.

Compliance

The general fund had original appropriations in excess of original certifications plus beginning balances in the amount of \$692,625 contrary to section 5709.41, of the Ohio Revised Code. This oversight was identified and corrected by fiscal year end.

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;

McDonald Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2);
7. The State Treasurer's investment pool (STAR Ohio); and
8. Commercial paper and bankers acceptances if training requirements have been met.

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

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, public utility and tangible personal property (used in business) located in the School District. Real property tax revenue received in calendar year 2011 represents collections of calendar year 2010 taxes. Real property taxes received in calendar year 2011 were levied after April 1, 2010, on the assessed value listed as of January 1, 2010, the lien date. Assessed values for real property taxes are established by State law at 35 percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar year 2011 represents collections of calendar year 2010 taxes. Public utility real and tangible personal property taxes received in calendar year 2011 became a lien December 31, 2009, were levied after April 1, 2010 and are collected in calendar year 2011 with real property taxes. Public utility real property is assessed at 35 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 year 2011 (other than public utility property tax) represents the collection of 2011 taxes levied against local and inter-exchange telephone companies. Tangible personal property tax on business inventory, manufacturing and equipment, furniture and fixtures is no longer levied and collected. Tangible personal property taxes received from telephone companies in calendar year 2011 were levied after October 1, 2010, on the value as of December 31, 2010. 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, 2011, are available to finance fiscal year 2011 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, 2011 and for which there is an enforceable legal claim.

McDonald Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2011, was \$4,507 in the general fund, \$51 in the classroom facilities maintenance special revenue fund, \$134 in the capital improvement fund and \$370 in the bond retirement fund. 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.

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 2011 taxes were collected are:

	2010 Second Half Collections		2011 First Half Collections	
	Amount	Percent	Amount	Percent
Real Estate	\$52,603,220	97.91%	\$52,952,820	97.90%
Public Utility Personal	1,046,530	1.95	1,086,110	2.01
General Business Personal	76,455	0.14	47,990	0.09
Total	\$53,726,205	100.00%	\$54,086,920	100.00%
Full Tax Rate per \$1,000 of assessed valuation	\$56.45		\$56.35	

Note 9 - Receivables

Receivables at June 30, 2011, 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
School Employees Retirement System	\$25,622
Title I	14,186
Title II-D	32
Total	\$39,840

McDonald Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

Note 10 – Capital Assets

Capital asset activity for the fiscal year ended June 30, 2011, was as follows:

	Balance June 30, 2010	Additions	Deletions	Balance June 30, 2011
Nondepreciable Capital Assets				
Land	\$311,600	\$0	\$0	\$311,600
Depreciable Capital Assets				
Land Improvements	541,458	0	0	541,458
Buildings and Improvements	19,922,204	0	0	19,922,204
Equipment and Furniture	556,715	105,275	(116,580)	545,410
Vehicles	301,318	0	0	301,318
<i>Total at Historical Cost</i>	<u>21,321,695</u>	<u>105,275</u>	<u>(116,580)</u>	<u>21,310,390</u>
Less: Accumulated Depreciation				
Land Improvements	(221,322)	(25,547)	0	(246,869)
Buildings and Improvements	(6,187,771)	(593,859)	0	(6,781,630)
Equipment and Furniture	(391,747)	(53,967)	69,948	(375,766)
Vehicles	(257,568)	(8,750)	0	(266,318)
<i>Total Accumulated Depreciation</i>	<u>(7,058,408)</u>	<u>(682,123) *</u>	<u>69,948</u>	<u>(7,670,583)</u>
<i>Depreciable Capital Assets, Net of Accumulated Depreciation</i>	<u>14,263,287</u>	<u>(576,848)</u>	<u>(46,632)</u>	<u>13,639,807</u>
<i>Governmental Activities Capital Assets, Net</i>	<u>\$14,574,887</u>	<u>(\$576,848)</u>	<u>(\$46,632)</u>	<u>\$13,951,407</u>

* Depreciation expense was charged to governmental functions as follows:

Instruction	
Regular	\$633,547
Support Services	
Administration	19,625
Operation and Maintenance of Plant	13,552
Pupil Transportation	8,750
Operation of Food Service	3,098
Extracurricular Activities	3,551
Total Depreciation Expense	<u>\$682,123</u>

McDonald Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

Note 11 – Fund Obligations

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

	<u>Outstanding June 30, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Outstanding June 30, 2011</u>
2010 0.00%				
State Solvency Assistance Advance	<u>\$2,001,000</u>	<u>\$0</u>	<u>\$1,000,500</u>	<u>\$1,000,500</u>

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 year 2012 the School District will pay \$1,000,500 to retire the solvency assistance advance.

Note 12 - Interfund Balances

Interfund balances at June 30, 2011, consist of an interfund receivable/payable between the general fund and the nonmajor governmental funds in the amount of \$26,873. 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.

Note 13 – Long-Term Obligations

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

<u>Debt Issue</u>	<u>Interest Rate</u>	<u>Original Issue</u>	<u>Year of Maturity</u>
2001 School Improvement Bonds:			
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

McDonald Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

Changes in long-term obligations of the School District during fiscal year 2011 were as follows:

	Principal Outstanding June 30, 2010	Additions	Deductions	Principal Outstanding June 30, 2011	Amount Due in One Year
Governmental Activities					
General Obligation Bonds					
2001 School Improvement Bonds					
Capital Appreciation Bonds	\$4,000	\$0	(\$2,339)	\$1,661	\$1,661
Accretion	118,506	34,126	(82,661)	69,971	69,971
<i>Total 2001 School Improvement Bonds</i>	<u>122,506</u>	<u>34,126</u>	<u>(85,000)</u>	<u>71,632</u>	<u>71,632</u>
2006 School Improvement Bonds					
Serial Bonds	1,120,000	0	(30,000)	1,090,000	30,000
Capital Appreciation Bonds	84,997	0	0	84,997	0
Accretion	56,526	19,426	0	75,952	0
Premium on Bonds	106,976	0	(8,615)	98,361	0
Loss on Refunding	(69,449)	0	5,593	(63,856)	0
<i>Total 2006 School Improvement Bonds</i>	<u>1,299,050</u>	<u>19,426</u>	<u>(33,022)</u>	<u>1,285,454</u>	<u>30,000</u>
<i>Total General Obligation Bonds</i>	<u>1,421,556</u>	<u>53,552</u>	<u>(118,022)</u>	<u>1,357,086</u>	<u>101,632</u>
Other Long-term Obligations					
Capital Leases	48,156	98,123	(65,505)	80,774	18,418
Special Termination Benefits	157,050	0	(45,225)	111,825	40,500
Compensated Absences	318,524	82,840	(144,939)	256,425	59,574
<i>Total Other Long-term Obligations</i>	<u>523,730</u>	<u>180,963</u>	<u>(255,669)</u>	<u>449,024</u>	<u>118,492</u>
<i>Total Governmental Activities</i>					
<i>Long-Term Liabilities</i>	<u>\$1,945,286</u>	<u>\$234,515</u>	<u>(\$373,691)</u>	<u>\$1,806,110</u>	<u>\$220,124</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.

At June 30, 2011, the full amount of the serial bonds had been retired by the School District through annual debt service repayments.

The capital appreciation bonds remained outstanding at June 30, 2011. The capital appreciation bonds were originally sold at a discount of \$83,339, which is being accreted annually until the point of maturity of the capital appreciation bonds, which is 2012.

The maturity amount of outstanding capital appreciation bonds at June 30, 2011 is \$ 1,661. The accretion recorded for 2011 was \$34,126, for a total outstanding bond liability of \$71,632 at June 30, 2011.

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 2021 through 2022.

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Notes to the Basic Financial Statements
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The serial and capital appreciation bonds remained outstanding at June 30, 2011. The capital appreciation bonds were originally sold at a discount of \$335,003, which is being accreted annually until the point of maturity of the capital appreciation bonds, which is 2021.

The maturity amount of outstanding capital appreciation bonds at June 30, 2011 is \$84,997. The accretion recorded for 2011 was \$19,426, for a total outstanding bond liability of \$160,949 at June 30, 2011.

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, 2011, \$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, 2011, was \$3,750,936 with an unvoted debt margin of \$54,039. Principal and interest requirements to retire general obligation bonds and capital appreciation outstanding at June 30, 2011, are as follows:

Fiscal Year Ending June 30	General Obligation Bonds			
	Serial		Capital Appreciation	
	Principal	Interest	Principal	Interest
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	130,000	25,737	0	0
2017 - 2021	275,000	89,005	84,997	335,003
2022 - 2023	295,000	12,197	0	0
Total	<u>\$1,090,000</u>	<u>\$274,561</u>	<u>\$86,658</u>	<u>\$418,342</u>

Note 14 – Capital Lease

During the fiscal year, 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	\$98,123
Less: Accumulated Depreciation	<u>(19,625)</u>
Total Book Value as of June 30, 2011	<u>\$78,498</u>

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, 2011.

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Fiscal Year Ending June 30,	Governmental Activities
2012	\$22,764
2013	22,764
2014	22,764
2015	22,764
Total Minimum Lease Payments	91,056
Less: Amount Representing Interest	(10,282)
Present Value of Net Minimum Lease Payments	\$80,774

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 \$20,568 to NEOMIN during fiscal year 2011.

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 2011. 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.

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.

McDonald Local School District
Notes to the Basic Financial Statements
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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 \$7,216,797 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.

Trumbull County Schools Employee Insurance Benefits Consortium

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 \$1,112 for family coverage and \$428 for single coverage per employee per month for the first option. The School District pays medical/surgical/prescription drug premiums of \$998 for family coverage and \$384 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.

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.

McDonald Local School District
Notes to the Basic Financial Statements
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Note 18 – Defined Benefit Pension Plans

School Employees Retirement System

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

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2011, the allocation to pension and death benefits was 11.81 percent. The remaining 2.19 percent of the 14 percent employer contribution rate is allocated to the Medicare B and Health Care funds. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2011, 2010, and 2009 were \$55,685, \$94,047 and \$60,577, respectively; the full amount has been contributed for fiscal years 2011, 2010 and 2009.

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 system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that can be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50. Benefits are established by Ohio Revised Code Chapter 3307.

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

McDonald Local School District
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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 - Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon the recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. For the fiscal year ended June 30, 2011, plan members were required to contribute 10 percent of their annual covered salary. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations.

The School District's required contributions to STRS Ohio for the DB Plan and for the defined benefit portion of the Combined Plan were \$356,159 and \$11 for the fiscal year ended June 30, 2011, \$441,210 and \$10 for the fiscal year ended June 30, 2010, and \$476,807 and \$10 for the fiscal year ended June 30, 2009. For fiscal year 2011, 87.36 percent has been contributed for the DB plan and 87.36 percent has been contributed for the Combined Plan, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2010 and 2009.

Contributions made to STRS Ohio for the DC Plan for fiscal year 2011 were \$6,637 made by the School District and \$4,741 made by the plan members. In addition, member contributions of \$8 were made for fiscal year 2011 for the defined contribution portion of the Combined Plan.

Note 19 – Postemployment Benefits

School Employees Retirement System

Plan Description – The School District participates in two cost-sharing multiple-employer defined benefit other postemployment 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 obligation to contribute are established by SERS based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For fiscal year 2011, 1.43 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 fiscal year 2011, this amount was \$35,800. During fiscal year 2011, the School District paid \$10,145 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.

McDonald Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

The School District's contributions for health care for the fiscal years ended June 30, 2011, 2010, and 2009 were \$16,888, \$13,681 and \$40,241, respectively. The full amount has been contributed for fiscal years 2011, 2010 and 2009.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2011, 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, 2011, 2010, and 2009, were \$3,583, \$5,593 and \$4,998 respectively. The full amount has been contributed for fiscal years 2011, 2010 and 2009.

State Teachers Retirement System

Plan Description – The School District participates in 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. Ohio law authorizes STRS to offer this plan. 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 can be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2011, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to post-employment health care. The School District's contributions for health care for the fiscal years ended June 30, 2011, 2010, and 2009 were \$27,397, \$33,939 and \$36,677 respectively. For fiscal year 2011, 87.36 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2010 and 2009.

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 Treasurer earns 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 max out at 320 days of accumulated sick leave. 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.

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.

McDonald Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

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 fiscal year 2009, three employees took the retirement incentive of \$15,000. In fiscal year 2010, four employees took the retirement incentive of \$15,000. 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, 2011.

Litigation

The School District is not 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.

McDonald Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

	Capital Improvements	Textbooks Instructional Materials
Set-Aside Reserve Balance as of June 30, 2010	\$0	\$44,165
Current Year Set-aside Requirement	0	0
Offsets	(210,923)	0
Qualifying Disbursements	(2,431)	(65,309)
Total	(\$213,354)	(\$21,144)
Set-aside Balance Carried Forward to Future Fiscal Years	\$0	\$0
Set-aside Balance as of June 30, 2011	\$0	\$0

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 2011. 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. Effective July 1, 2011, the textbook set aside is no longer required and has been removed from existing law. This negative balance is therefore not presented as being carried forward to future fiscal year.

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, State-wide 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.

During Fiscal Year 2011, the School District made significant reductions and cut costs as much as possible. The School District passed an emergency 7.25 mill tax levy on May 3, 2011 that will generate \$391,000 annually in additional revenue. Collections will begin on January 1st 2012.

MCDONALD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY

FEDERAL AWARDS EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2011

Federal Grantor/ Pass Through Grantor Program Title	Grant Year	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Disbursements
U.S. DEPARTMENT OF AGRICULTURE						
<i>Passed Through Ohio Department of Education.</i>						
National School Lunch Program	2011	10.555	56,689	8,149	56,689	8149
TOTAL U.S. DEPARTMENT OF AGRICULTURE			56,689	8,149	56,689	8,149
U.S. DEPARTMENT OF EDUCATION						
<i>Passed Through Ohio Department of Education:</i>						
Title I, Part A Cluster						
Title I Grants to Local Educational Agencies	2009	84.010	14,236		15,687	
Title I Grants to Local Educational Agencies	2010	84.010	69,767		62,552	
			84,002		78,239	
Title I Grants to Local Educational Agencies, Recovery Act	2011	84.389	43,355		43,355	
<i>Total Title I Grants to Local Educational Agencies</i>			<u>127,357</u>		<u>121,594</u>	
Special Education Cluster (IDEA)						
Special Education Grants to States	2011	84.027	146,243		146,243	
Special Education Grants to States, Recovery Act	2010	84.391	7,152		7,152	
Special Education Grants to States, Recovery Act	2011	84.931	235		235	
<i>Total Special Education Grants to States</i>			<u>153,630</u>		<u>153,630</u>	
Education Jobs Funds						
<i>Total Education Jobs Funds Grants</i>	2011	84.410	256,774		256,774	
			<u>256,774</u>		<u>256,774</u>	
Education Technology State Grants Title II, Part D						
Education Technology State Grants Title II, Part D	2011	84.318	418		418	
Education Technology State Grants Title II, Part D	2010	84.318	491		0	
<i>Total Education Technology State Grants</i>			<u>909</u>		<u>418</u>	
Improving Teacher Quality State Grants Title II, Part A						
Improving Teacher Quality State Grants	2011	84.340	24,972		24,972	
<i>Total Improving Teacher Quality State Grants</i>			<u>24,972</u>		<u>24,972</u>	
State Fiscal Stabilization Fund - Education State Grants, Recovery Act						
<i>Total State Fiscal Stabilization Fund - Education State Grants Recovery Act</i>	2010	84.394	295,652		295,652	
			<u>295,652</u>		<u>295,652</u>	
TOTAL U.S. DEPARTMENT OF EDUCATION			859,295		853,040	
TOTALS			\$915,984	\$8,149	\$909,729	\$8,149

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

**MC DONALD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY**

**NOTES TO THE FEDERAL AWARDS EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2011**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Expenditures Schedule (the Schedule) reports the McDonald Local School District's (the District's) 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

The District reports commodities consumed on the Schedule at the fair value. The District allocated donated food commodities to the respective program that benefitted from the use of those donated food commodities.



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, 2011, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 21, 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 a 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 no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We did note a certain matter not requiring inclusion in this report that we reported to the District's management in a separate letter dated November 21, 2011.

We intend this report solely for the information and use of management, the 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.



Dave Yost
Auditor of State

November 21, 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 apply to each of its major federal programs for the year ended June 30, 2011. 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 apply to each of its major federal programs for the year ended June 30, 2011.

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 requirements that could directly and materially affect a major federal program in order to determine our auditing procedures for the purpose of opining on 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.

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 management, Board of Education, 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 "D" and "Y".

Dave Yost
Auditor of State

November 21, 2011

**MCDONALD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2011**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
(d)(1)(iv)	Were there any significant deficiencies in internal control reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510(a)?	No
(d)(1)(vii)	Major Programs (list):	State Fiscal Stabilization Fund (84.394) Education Jobs (84.410)
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

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INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

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

To the Board of Education:

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

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

1. We noted the Board amended its anti-harassment policy at its meeting on July 12, 2010 to include violence within a dating relationship within its definition of harassment, intimidation or bullying.

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

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

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

November 21, 2011

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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
JANUARY 3, 2012**