



Dave Yost • Auditor of State



**MCDONALD LOCAL SCHOOL DISTRICT  
TRUMBULL COUNTY**

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

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

To the Board of Education:

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of the governmental activities, the 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, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

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

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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of McDonald Local District, Trumbull County, Ohio, as of June 30, 2014, and the respective changes in financial position and budgetary comparison for the General Fund thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

**Other Matters**

*Required Supplementary Information*

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

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated March 16, 2015, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



**Dave Yost**  
Auditor of State  
Columbus, Ohio

March 16, 2015

**McDonald Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2014*  
*Unaudited*

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As management of the McDonald Local School District (the School District), we offer readers of the School District's financial statements this narrative and analysis of the financial activities of the School District for the fiscal year ended June 30, 2014. We encourage readers to consider the information presented here in conjunction with the financial statements and notes to the basic financial statements to enhance their understanding of the School District's financial performance.

**Financial Highlights**

- In total, net position increased due to an increase in operating grants and grants not restricted offset with an increase in instructional expenses. The increase in intergovernmental revenues is a result of the School District continuing to seek out additional sources of funding to ensure that the programs provided by the School District continue. The increase in instructional expenses is the result of the School District giving 2.75 percent raises for both certified and classified staff.
- Capital asset additions included improvements to fences and sidewalks, computer lab furniture, paving, wiring and the purchase of a new bus.
- Outstanding long-term obligations decreased during fiscal year 2014 due to annual general obligation debt and capital lease payments.
- The School District's assessed valuation showed a modest increase in fiscal year 2014.

**Overview of the Financial Statements**

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

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

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

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

**McDonald Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2014*  
*Unaudited*

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

***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 finance educational programs. The relationship (or difference) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is reconciled in the financial statements.

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

***Notes to the Basic Financial Statements*** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**Government-wide Financial Analysis**

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. Table 1 provides a comparison of the School District's Net Position for 2014 compared to 2013.



**McDonald Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2014*  
*Unaudited*

**Table 1**  
**Net Position**  
**Governmental Activities**

	2014	2013	Change
<b>Assets</b>			
Current and Other Assets	\$5,482,883	\$4,507,673	\$975,210
Capital Assets, Net	12,245,057	12,755,552	(510,495)
<i>Total Assets</i>	<u>17,727,940</u>	<u>17,263,225</u>	<u>464,715</u>
<b>Deferred Outflows of Resources</b>	<u>47,077</u>	<u>52,670</u>	<u>(5,593)</u>
<b>Liabilities</b>			
Current Liabilities	738,255	686,044	(52,211)
Long-Term Liabilities			
Due Within One Year	169,782	197,835	28,053
Due in More Than One Year	1,305,614	1,379,823	74,209
<i>Total Liabilities</i>	<u>2,213,651</u>	<u>2,263,702</u>	<u>50,051</u>
<b>Deferred Inflows of Resources</b>	<u>1,824,209</u>	<u>1,852,640</u>	<u>28,431</u>
<b>Net Position</b>			
Net Investment in Capital Assets	11,287,580	11,654,292	(366,712)
Restricted for:			
Capital Projects	240,745	257,145	(16,400)
Debt Service	168,291	170,129	(1,838)
Other Purposes	292,264	315,510	(23,246)
Unrestricted	<u>1,748,277</u>	<u>802,477</u>	<u>945,800</u>
<i>Total Net Position</i>	<u><u>\$13,737,157</u></u>	<u><u>\$13,199,553</u></u>	<u><u>\$537,604</u></u>

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

Total liabilities decreased during fiscal year 2013 due mainly to annual payments on the School District's general obligation bonds and capital lease offset by an increase in accrued wages from the increase in base salary provided to both certified and classified staff.

In order to further understand what makes up the changes in net position for the current year, the following table gives readers further details regarding the results of activities for 2014 and 2013.

**McDonald Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2014*  
*Unaudited*

**Table 2**  
Change in Net Position  
Governmental Activities

	2014	2013	Change
<b>Program Revenues</b>			
Charges for Services and Sales	\$1,261,411	\$1,224,012	\$37,399
Operating Grants and Contributions	845,170	718,263	126,907
<i>Total Program Revenues</i>	<u>2,106,581</u>	<u>1,942,275</u>	<u>164,306</u>
<b>General Revenues</b>			
Property Taxes	1,853,044	1,886,962	(33,918)
Grants and Entitlements	3,947,098	3,730,443	216,655
Investment Earnings	1,526	1,490	36
Miscellaneous	6,444	4,352	2,092
<i>Total General Revenues</i>	<u>5,808,112</u>	<u>5,623,247</u>	<u>184,865</u>
<i>Total Revenues</i>	<u>7,914,693</u>	<u>7,565,522</u>	<u>349,171</u>
<b>Program Expenses</b>			
Instruction:			
Regular	4,108,224	4,089,316	(18,908)
Special	966,184	651,592	(314,592)
Vocational	29,375	31,775	2,400
Support Services			
Pupils	251,519	284,527	33,008
Instructional Staff	14,040	8,635	(5,405)
Board of Education	30,977	27,870	(3,107)
Administration	520,196	458,482	(61,714)
Fiscal	161,412	176,518	15,106
Operation and Maintenance of Plant	632,955	542,259	(90,696)
Pupil Transportation	130,046	115,232	(14,814)
Central	46,498	45,937	(561)
Operation of Non-Instructional Services	54,938	21,781	(33,157)
Operation of Food Service	109,435	106,329	(3,106)
Extracurricular Activities	256,407	196,983	(59,424)
Interest and Fiscal Charges	64,883	101,077	36,194
<i>Total Program Expenses</i>	<u>7,377,089</u>	<u>6,858,313</u>	<u>(518,776)</u>
<i>Change in Net Position</i>	537,604	707,209	(169,605)
Net Position Beginning of Year	13,199,553	12,492,344	707,209
Net Position End of Year	<u>\$13,737,157</u>	<u>\$13,199,553</u>	<u>\$537,604</u>

**McDonald Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2014*  
*Unaudited*

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

Program expenses increased mainly due to increases in instruction costs. Higher instruction costs can be attributed to salary increases, an increase in students leaving for open enrollment options and excess cost tuition payments to other school districts as well as to an increase in annual depreciation charged to instruction 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 2014 compared to 2013.

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

	2014		2013	
	Total Cost of Service	Net Cost of Service	Total Cost of Service	Net Cost of Service
Instruction:				
Regular	\$4,108,224	\$3,034,087	\$4,089,316	\$2,848,800
Special	966,184	286,923	651,592	407,824
Vocational	29,375	29,260	31,775	31,775
Support Services:				
Pupils	251,519	226,013	284,527	128,054
Instructional Staff	14,040	14,040	8,635	8,635
Board of Education	30,977	30,977	27,870	27,870
Administration	520,196	508,496	458,482	431,804
Fiscal	161,412	161,412	176,518	176,518
Operation and Maintenance of Plant	632,955	574,357	542,259	497,986
Pupil Transportation	130,046	130,046	115,232	115,232
Central	46,498	42,898	45,937	45,937
Operation of Non-Instructional Services	54,938	54,938	21,781	21,781
Operation of Food Service	109,435	2,168	106,329	(12,464)
Extracurricular Activities	256,407	110,010	196,983	85,209
Interest and Fiscal Charges	64,883	64,883	101,077	101,077
Total	<u>\$7,377,089</u>	<u>\$5,270,508</u>	<u>\$6,858,313</u>	<u>\$4,916,038</u>

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

**McDonald Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2014*  
*Unaudited*

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

**Governmental Funds** Information about the School District's major funds begins with the balance sheet. These funds are accounted for using the modified accrual basis of accounting. The general fund had an increase in fund balance due mainly to an increase in unrestricted State revenue offset by increases to instructional expenditures from the increase in base salary. Overall, the School District's revenues continue to outpace expenditures through careful budget restraints set in place by the School District.

**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 2014, 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 the original budget estimate. The change was mainly attributed to an increase in intergovernmental revenues as a better picture of actual receipts and awards became apparent.

The final budget appropriations were lower than the original budget appropriations of the general fund. The change was attributed to decreases in estimates for instructional activities and support services resulting from careful spending controls.

**Capital Assets and Long-term Liabilities**

*Capital Assets*

Table 4 shows fiscal 2014 values compared to fiscal 2013.

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

	<u>2014</u>	<u>2013</u>
Land	\$311,600	\$311,600
Land Improvements	248,438	231,285
Buildings and Improvements	11,444,193	12,030,286
Furniture and Fixtures	102,115	98,519
Vehicles	<u>138,711</u>	<u>83,862</u>
Total Capital Assets	<u>\$12,245,057</u>	<u>\$12,755,552</u>

**McDonald Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2014*  
*Unaudited*

The decrease in capital assets was due to the current year depreciation outpacing additional purchases. In fiscal year 2014, the School District's capital asset additions included land and building improvements, a new bus, the purchase of training equipment and computer lab furniture. For more information about the School District's capital assets, see Note 8 to the basic financial statements.

*Debt*

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

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

	2014	2013
2006 School Improvement Bonds	\$1,134,255	\$1,234,297
Capital Leases	22,041	42,802
Total	\$1,156,296	\$1,277,099

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

**School District Outlook**

Currently, the School District is financially strong and is forecast to remain strong over the next five years, however, the financial future of the School District will continue to face challenges. These challenges 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. The district has precious little tax base and it is mostly residential.

State level challenges continue to evolve as the State of Ohio determines the outcome of the Ohio Supreme Court case dealing with unconstitutionality of the State's educational funding system. This decades old problem continues as each State Budget seems to contain a new "fix" for our unconstitutional system. The confusion caused by four different formulae in 6 years can be crushing to the district's efforts to explain and understand the local school budget. In addition, the State continues to place unfunded mandates on schools such as third grade guarantee and on-line testing.

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

**McDonald Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2014*  
*Unaudited*

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

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

**McDonald Local School District**

*Statement of Net Position*

*June 30, 2014*

	<u>Governmental Activities</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$3,371,246
Intergovernmental Receivable	20,158
Inventory Held for Resale	831
Materials and Supplies Inventory	418
Property Taxes Receivable	2,090,230
Nondepreciable Capital Assets	311,600
Depreciable Capital Assets, Net	<u>11,933,457</u>
<i>Total Assets</i>	<u>17,727,940</u>
<b>Deferred Outflows of Resources</b>	
Deferred Charge on Refunding	<u>47,077</u>
<b>Liabilities</b>	
Accounts Payable	29,522
Accrued Wages and Benefits	543,764
Intergovernmental Payable	157,858
Matured Compensated Absences Payable	4,362
Accrued Interest Payable	2,749
Long-Term Liabilities:	
Due Within One Year	169,782
Due In More Than One Year	<u>1,305,614</u>
<i>Total Liabilities</i>	<u>2,213,651</u>
<b>Deferred Inflows of Resources</b>	
Property Taxes	<u>1,824,209</u>
<b>Net Position</b>	
Net Investment in Capital Assets	11,287,580
Restricted for:	
Capital Projects	240,745
Debt Service	168,291
Other Purposes	292,264
Unrestricted	<u>1,748,277</u>
<i>Total Net Position</i>	<u><u>\$13,737,157</u></u>

See accompanying notes to the basic financial statements

**McDonald Local School District**  
*Statement of Activities*  
For the Fiscal Year Ended June 30, 2014

	Program Revenues			Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
<b>Governmental Activities</b>				
Instruction:				
Regular	\$4,108,224	\$1,052,143	\$21,994	(\$3,034,087)
Special	966,184	0	679,261	(286,923)
Vocational	29,375	0	115	(29,260)
Support Services:				
Pupils	251,519	0	25,506	(226,013)
Instructional Staff	14,040	0	0	(14,040)
Board of Education	30,977	0	0	(30,977)
Administration	520,196	11,700	0	(508,496)
Fiscal	161,412	0	0	(161,412)
Operation and Maintenance of Plant	632,955	13,600	44,998	(574,357)
Pupil Transportation	130,046	0	0	(130,046)
Central	46,498	0	3,600	(42,898)
Operation of Non-Instructional Services	54,938	0	0	(54,938)
Operation of Food Service	109,435	39,334	67,933	(2,168)
Extracurricular Activities	256,407	144,634	1,763	(110,010)
Interest and Fiscal Charges	64,883	0	0	(64,883)
<b>Totals</b>	<b>\$7,377,089</b>	<b>\$1,261,411</b>	<b>\$845,170</b>	<b>(5,270,508)</b>

**General Revenues**

Property Taxes Levied for:	
General Purposes	1,706,036
Debt Service	128,258
Classroom Facilities Maintenance	18,750
Grants and Entitlements not Restricted to Specific Programs	3,947,098
Investment Earnings	1,526
Miscellaneous	6,444
<b>Total General Revenues</b>	<b>5,808,112</b>
Change in Net Position	537,604
<i>Net Position Beginning of Year</i>	<u>13,199,553</u>
<i>Net Position End of Year</i>	<u><u>\$13,737,157</u></u>

See accompanying notes to the basic financial statements



**McDonald Local School District**

*Balance Sheet  
Governmental Funds  
June 30, 2014*

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$2,661,721	\$687,800	\$3,349,521
Restricted Assets:			
Equity in Pooled Cash and Cash Equivalents	21,725	0	21,725
Intergovernmental Receivable	0	20,158	20,158
Inventory Held for Resale	0	831	831
Materials and Supplies Inventory	0	418	418
Property Taxes Receivable	1,925,359	164,871	2,090,230
<i>Total Assets</i>	<u>\$4,608,805</u>	<u>\$874,078</u>	<u>\$5,482,883</u>
<b>Liabilities</b>			
Accounts Payable	\$26,859	\$2,663	\$29,522
Accrued Wages and Benefits	518,987	24,777	543,764
Matured Compensated Absences Payable	4,362	0	4,362
Intergovernmental Payable	151,082	6,776	157,858
<i>Total Liabilities</i>	<u>701,290</u>	<u>34,216</u>	<u>735,506</u>
<b>Deferred Inflows of Resources</b>			
Property Taxes	1,681,128	143,081	1,824,209
Unavailable Revenue	231,245	40,789	272,034
<i>Total Deferred Inflows of Resources</i>	<u>1,912,373</u>	<u>183,870</u>	<u>2,096,243</u>
<b>Fund Balances</b>			
Nonspendable	21,725	418	22,143
Restricted	0	666,064	666,064
Committed	744	0	744
Assigned	17,928	0	17,928
Unassigned (Deficit)	1,954,745	(10,490)	1,944,255
<i>Total Fund Balances</i>	<u>1,995,142</u>	<u>655,992</u>	<u>2,651,134</u>
<i>Total Liabilities, Deferred Inflows of Resources and Fund Balances</i>	<u>\$4,608,805</u>	<u>\$874,078</u>	<u>\$5,482,883</u>

See accompanying notes to the basic financial statements

**McDonald Local School District**  
*Reconciliation of Total Governmental Fund Balances to  
 Net Position of Governmental Activities  
 June 30, 2014*

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<b>Total Governmental Fund Balances</b>	<b>\$2,651,134</b>
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*Amounts reported for governmental activities in the statement of net position are different because*

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	12,245,057
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Other long-term assets are not available to pay for current-period expenditures and therefore are reported as unavailable revenue in the funds.

Delinquent Property Taxes	251,876
Intergovernmental	<u>20,158</u>

Total	272,034
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In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	(2,749)
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Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.

General Obligation Bonds	(1,134,255)
Capital Leases	(22,041)
Special Termination Benefits	(10,725)
Compensated Absences	(308,375)
Deferred Charge on Refunding	<u>47,077</u>

Total	<u>(1,428,319)</u>
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<i>Net Position of Governmental Activities</i>	<u><u>\$13,737,157</u></u>
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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, 2014*

	General	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>			
Property Taxes	\$1,687,865	\$150,112	\$1,837,977
Intergovernmental	4,272,439	460,143	4,732,582
Interest	1,526	60	1,586
Tuition and Fees	1,052,143	0	1,052,143
Extracurricular Activities	11,700	86,788	98,488
Contributions and Donations	0	42,763	42,763
Charges for Services	57,846	39,334	97,180
Rentals	13,600	0	13,600
Miscellaneous	6,444	0	6,444
<i>Total Revenues</i>	<u>7,103,563</u>	<u>779,200</u>	<u>7,882,763</u>
<b>Expenditures</b>			
Current:			
Instruction:			
Regular	3,411,083	22,017	3,433,100
Special	618,146	337,016	955,162
Vocational	29,375	0	29,375
Support Services:			
Pupils	213,976	28,430	242,406
Instructional Staff	14,040	0	14,040
Board of Education	30,977	0	30,977
Administration	501,835	11,197	513,032
Fiscal	161,050	350	161,400
Operation and Maintenance of Plant	584,937	52,112	637,049
Pupil Transportation	90,993	16,765	107,758
Central	42,848	3,650	46,498
Operation of Non-Instructional Services	53,709	1,229	54,938
Operation of Food Service	0	105,124	105,124
Extracurricular Activities	156,101	99,810	255,911
Capital Outlay	0	196,400	196,400
Debt Service:			
Principal Retirement	20,761	120,000	140,761
Interest and Fiscal Charges	2,003	37,699	39,702
<i>Total Expenditures</i>	<u>5,931,834</u>	<u>1,031,799</u>	<u>6,963,633</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>1,171,729</u>	<u>(252,599)</u>	<u>919,130</u>
<b>Other Financing Sources (Uses)</b>			
Transfers In	0	203,550	203,550
Transfers Out	(203,550)	0	(203,550)
<i>Total Other Financing Sources (Uses)</i>	<u>(203,550)</u>	<u>203,550</u>	<u>0</u>
<i>Net Change in Fund Balances</i>	968,179	(49,049)	919,130
<i>Fund Balances Beginning of Year</i>	<u>1,026,963</u>	<u>705,041</u>	<u>1,732,004</u>
<i>Fund Balances End of Year</i>	<u>\$1,995,142</u>	<u>\$655,992</u>	<u>\$2,651,134</u>

See accompanying notes to the basic financial statement:

**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, 2014*

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**Net Change in Fund Balances - Total Governmental Funds** \$919,130

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

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

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

Capital Asset Additions	154,808
Current Year Depreciation	<u>(665,303)</u>

Total	(510,495)
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Delinquent Property Taxes	15,067
Intergovernmental	<u>16,863</u>

Total	31,930
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Repayment of bond and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 140,761

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	370
Amortization of Accretion	(28,573)
Amortization of Premium	8,615
Amortization of Accounting Loss	<u>(5,593)</u>

Total	(25,181)
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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	(36,841)
Special Termination Benefits	<u>18,300</u>

Total	<u>(18,541)</u>
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*Change in Net Position of Governmental Activities* \$537,604

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, 2014*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Property Taxes	\$1,697,327	\$1,683,736	\$1,683,736	\$0
Intergovernmental	4,162,658	4,283,529	4,283,445	(84)
Interest	1,490	1,490	1,526	36
Tuition and Fees	1,030,960	1,052,143	1,052,143	0
Charges for Services	37,409	57,846	57,846	0
Rentals	14,440	13,600	13,600	0
Miscellaneous	6,300	6,984	6,982	(2)
<i>Total Revenues</i>	<u>6,950,584</u>	<u>7,099,328</u>	<u>7,099,278</u>	<u>(50)</u>
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	3,934,395	3,408,258	3,407,733	525
Special	730,868	617,126	617,126	0
Vocational	37,178	29,338	29,338	0
Support Services:				
Pupils	156,146	204,428	204,428	0
Instructional Staff	10,596	14,040	14,040	0
Board of Education	33,423	25,760	25,760	0
Administration	609,857	498,927	498,927	0
Fiscal	221,994	167,462	167,462	0
Operation and Maintenance of Plant	639,304	577,538	577,538	0
Pupil Transportation	78,188	91,911	91,911	0
Central	45,713	42,808	42,808	0
Operation of Non-Instructional Services	0	53,709	53,709	0
Extracurricular Activities	148,114	156,000	156,000	0
<i>Total Expenditures</i>	<u>6,645,776</u>	<u>5,887,305</u>	<u>5,886,780</u>	<u>525</u>
<i>Excess of Revenues Over(Under) Expenditures</i>	304,808	1,212,023	1,212,498	475
<b>Other Financing Sources (Uses)</b>				
Transfers Out	0	(180,000)	(203,550)	(23,550)
<i>Net Change in Fund Balance</i>	304,808	1,032,023	1,008,948	(23,075)
<i>Fund Balance Beginning of Year</i>	1,642,610	1,642,610	1,642,610	0
Prior Year Encumbrances Appropriated	10,255	10,255	10,255	0
<i>Fund Balance End of Year</i>	<u>\$1,957,673</u>	<u>\$2,684,888</u>	<u>\$2,661,813</u>	<u>(\$23,075)</u>

See accompanying notes to the basic financial statements

**McDonald Local School District**  
*Statement of Fiduciary Assets and Liabilities*  
*Agency Fund*  
*June 30, 2014*

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**Assets**

Equity in Pooled Cash and Cash Equivalents	<u>\$32,747</u>
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**Liabilities**

Due to Students	<u>\$32,747</u>
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See accompanying notes to the basic financial statements

**McDonald Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2014*

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

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

The School District serves an area of approximately 3 square miles in Trumbull County, including the Village of McDonald and portions of surrounding townships. The School District operates one elementary school and one comprehensive middle/high school. It is staffed by 55 certified and 13 classified personnel to provide services to 905 students and other community members.

***Reporting Entity***

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

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

The School District participates in two jointly governed organizations and one public entity pool. The organizations are the Northeast Ohio Management Information Network, the Trumbull Career and Technical Center and the Trumbull County Schools Employee Insurance Benefit Consortium. These organizations are presented in Notes 12 and 13 to the basic financial statements.

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

The financial statements of the School District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the School District's accounting policies are described below.

***Basis of Presentation***

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

**McDonald Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2014*

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

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

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

**Fund Accounting**

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

**Governmental Funds** Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and deferred outflows of resources and liabilities and deferred inflows of resources is reported as fund balance. The following 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 position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the School District



**McDonald Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2014*

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

***Measurement Focus***

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

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

***Basis of Accounting***

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

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

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year in which the taxes are levied (See Note 6). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

**McDonald Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2014*

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

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

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the School District, deferred inflows of resources include property taxes and unavailable revenue. Property taxes represent amounts for which there is an enforceable legal claim as of June 30, 2014, but which were levied to finance fiscal year 2015 operations. These amounts have been recorded as a deferred inflow on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the School District unavailable revenue includes delinquent property taxes and intergovernmental grants. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available.

***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 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. Prior to June 30, the Board requested and received an amended certificate in which estimated revenue closely match actual revenue for the fiscal year.

**McDonald Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2014*

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

***Cash and Cash Equivalents***

To improve cash management, cash received by the School District is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the School District's records. Interest in the pool is presented as "equity in pooled cash and cash equivalents" on the financial statements. The School District had no investments during the fiscal year or at fiscal year end.

During fiscal year 2014, investments were limited to money market accounts and repurchase agreements all reported at cost.

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 2014 amounted to \$1,526, which includes \$276 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.

***Restricted Assets***

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

***Capital Assets***

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The School District was able to estimate the historical cost for the initial reporting of assets by backtrending (i.e., estimating the current replacement cost of the asset to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year.) Donated capital assets are recorded at their 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, 2014*

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

***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 occurrence of employee resignations and retirements. These amounts are recorded in the account "Matured Compensated Absences Payable" in the fund from which the employee who has accumulated unpaid leave is paid.

***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 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.

**McDonald Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2014*

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***Fund Balance***

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

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

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

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

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

***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.

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

***Net Position***

Net position represents the difference between all other elements in a statement of financial position. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net position restricted for other purposes include resources restricted for food service and extracurricular activities.

**McDonald Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2014*

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

***Deferred Charge on Refunding***

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

***Bond Premiums***

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

***Estimates***

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

**Note 3 - Budgetary Basis of Accounting**

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

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

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

**McDonald Local School District**  
*Notes to the Basic Financial Statements*  
For the Fiscal Year Ended June 30, 2014

Net Change in Fund Balance

GAAP Basis	\$968,179
Revenue Accruals	7,415
Expenditure Accruals	48,246
Perspective Difference:	
Public School Support	(619)
Encumbrances	(14,273)
Budget Basis	\$1,008,948

**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
<b><i>Nonspendable</i></b>			
Materials and Supplies Inventory	\$0	\$418	\$418
Unclaimed Monies	21,725	0	21,725
<i>Total Nonspendable</i>	21,725	418	22,143
<b><i>Restricted for</i></b>			
Food Service Operations	0	13,342	13,342
Scholarships	0	77,063	77,063
Athletics	0	13,959	13,959
Classroom Facilities Maintenance	0	164,968	164,968
Technology Improvements	0	3,039	3,039
Debt Service Payments	0	152,948	152,948
Capital Improvements	0	240,745	240,745
<i>Total Restricted</i>	0	666,064	666,064
<b><i>Committed to</i></b>			
Cleaning Services	424	0	424
Benefits	320	0	320
<i>Total Committed</i>	744	0	744
<b><i>Assigned to</i></b>			
Purchases on Order	10,568	0	10,568
Public School Support	7,360	0	7,360
<i>Total Assigned</i>	17,928	0	17,928
<b><i>Unassigned (Deficit)</i></b>	1,954,745	(10,490)	1,944,255
<b><i>Total Fund Balances</i></b>	\$1,995,142	\$655,992	\$2,651,134

**McDonald Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2014*

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**Note 5 - Deposits and Investments**

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

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

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

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

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in securities listed above;
4. Bonds and other obligations of the State of Ohio;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2);
7. The State Treasurer's investment pool (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.



**McDonald Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2014*

**Investments**

As of June 30, 2014, the School District had the following investments:

	Fair Value	Maturity	Moody Rating	Percent of Total Investments
Money Market Accounts	\$2,186,621	Less than one year	AAAm	72.67 %
Repurchase Agreements	822,470	Less than one year	AAAm	27.33
Total Portfolio	<u>\$3,009,091</u>			

**Interest Rate Risk** As a means of limiting its exposure to fair value losses caused by rising interest rates, the School District’s investment policy requires that operating funds be invested primarily in short-term investments maturing within two years from the date of purchase if they have a variable interest rate and five years for investments that have a fixed rate and that the School District’s investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations and/or long-term debt payments. The stated intent of the policy is to avoid the need to sell securities prior to maturity. Repurchase agreements are limited to 30 days and the market value of the securities must exceed the principal value of the agreement by at least 2 percent and be marked to market daily.

**Credit Risk** The federal agency securities underlying the repurchase agreements were rated AAAm by Moody’s Investor Services. The School District has no investment policy that addresses credit risk.

**Concentration of Credit Risk.** The School District places no limit on the amount it may invest in any one issuer.

**Note 6 – Property Taxes**

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

Property taxes include amounts levied against all real property and public utility property located in the School District. Real property tax revenues received in calendar year 2014 represents collections of calendar year 2013 taxes. Real property taxes received in calendar year 2014 were levied after April 1, 2013, on the assessed value listed as of January 1, 2013, the lien date. Assessed values for real property are established by State law at thirty-five percent of appraised market value. Real property are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenues received in calendar year 2014 represents collections of calendar year 2013 taxes. Public utility real and tangible personal property taxes received in calendar year 2013 become a lien December 31, 2012, were levied after April 1, 2013 and are collected in 2014 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

**McDonald Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2014*

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, 2014, are available to finance fiscal year 2014 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property and public utility property taxes which are measurable as of June 30, 2014 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 were levied to finance current fiscal year operations are reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred inflows of resources – property taxes. On the accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue while on the modified accrual basis the revenue has been reported as deferred inflows of resources – unavailable revenue.

The amount available as an advance at June 30, 2014 was \$12,986 in the general fund, \$143 in the classroom facilities special revenue fund and \$1,016 in the bond retirement debt service fund. The amount available as an advance at June 30, 2013, was \$8,857 in the general fund, \$97 in the classroom facilities special revenue fund and \$890 in the bond retirement debt service fund.

The assessed values upon which the fiscal year 2014 taxes were collected are:

	2013 First Half Collections		2014 First Half Collections	
	Amount	Percent	Amount	Percent
Real Estate	\$50,755,860	97.48%	\$50,684,350	97.26%
Public Utility Personal	1,311,360	2.52	1,428,830	2.74
Total	\$52,067,220	100.00%	\$52,113,180	100.00%
Full Tax Rate per \$1,000 of assessed valuation	\$62.35		\$61.75	

**Note 7 - Receivables**

Receivables at June 30, 2014, consisted of taxes and intergovernmental monies. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. All receivables except property taxes are expected to be received within one year. Property taxes, although ultimately collectible, include some portion of delinquencies that will not be collected within one year.

The title I special revenue fund had an outstanding grant award in the amount of \$20,158.

**McDonald Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2014*

**Note 8 – Capital Assets**

Capital asset activity for the fiscal year ended June 30, 2014, was as follows:

	Balance June 30, 2013	Additions	Deletions	Balance June 30, 2014
<b>Nondepreciable Capital Assets</b>				
Land	\$311,600	\$0	\$0	\$311,600
<b>Depreciable Capital Assets</b>				
Land Improvements	524,008	42,900	0	566,908
Buildings and Improvements	20,001,784	10,780	0	20,012,564
Equipment and Furniture	348,404	21,628	0	370,032
Vehicles	300,739	79,500	(36,427)	343,812
<i>Total at Historical Cost</i>	<u>21,174,935</u>	<u>154,808</u>	<u>(36,427)</u>	<u>21,293,316</u>
<b>Less: Accumulated Depreciation</b>				
Land Improvements	(292,723)	(25,747)	0	(318,470)
Buildings and Improvements	(7,971,498)	(596,873)	0	(8,568,371)
Equipment and Furniture	(249,885)	(18,032)	0	(267,917)
Vehicles	(216,877)	(24,651)	36,427	(205,101)
<i>Total Accumulated Depreciation</i>	<u>(8,730,983)</u>	<u>(665,303) *</u>	<u>36,427</u>	<u>(9,359,859)</u>
<i>Depreciable Capital Assets, Net of Accumulated Depreciation</i>	<u>12,443,952</u>	<u>(510,495)</u>	<u>0</u>	<u>11,933,457</u>
<i>Governmental Activities Capital Assets, Net</i>	<u>\$12,755,552</u>	<u>(\$510,495)</u>	<u>\$0</u>	<u>\$12,245,057</u>

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

Instruction	
Regular	\$618,855
Support Services	
Administration	12,265
Operation and Maintenance of Plant	5,596
Pupil Transportation	24,651
Operation of Food Service	3,440
Extracurricular Activities	496
Total Depreciation Expense	<u>\$665,303</u>

**McDonald Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2014*

**Note 9 – Long-Term Obligations**

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

Debt Issue	Interest Rate	Original Issue	Year of Maturity
2006 School Improvement Bonds:			
Current Interest Serial Bonds	3.70% to 4.00%	\$625,000	2017
Capital Appreciation Bonds	4.60% to 4.70%	84,997	2020
Current Issue Term Bonds	3.70% to 4.10%	580,000	2023

Changes in long-term obligations of the School District during fiscal year 2014 were as follows:

	Principal Outstanding June 30, 2013	Additions	Deductions	Principal Outstanding June 30, 2014	Amount Due in One Year
<b>Governmental Activities</b>					
<b>General Obligation Bonds</b>					
2006 School Improvement Bonds					
Current Interest Serial Bonds	\$510,000	\$0	(\$120,000)	\$390,000	\$125,000
Capital Appreciation Bonds	84,997	0	0	84,997	0
Accretion	123,169	28,573	0	151,742	0
Current Interest Term Bonds	435,000	0	0	435,000	0
Premium on Bonds	81,131	0	(8,615)	72,516	0
<i>Total General Obligation Bonds</i>	<u>1,234,297</u>	<u>28,573</u>	<u>(128,615)</u>	<u>1,134,255</u>	<u>125,000</u>
<b>Other Long-term Obligations</b>					
Capital Leases	42,802	0	(20,761)	22,041	22,041
Special Termination Benefits	29,025	0	(18,300)	10,725	9,450
Compensated Absences	271,534	268,965	(232,124)	308,375	13,291
<i>Total Other Long-term Obligations</i>	<u>343,361</u>	<u>268,965</u>	<u>(271,185)</u>	<u>341,141</u>	<u>44,782</u>
<i>Total Governmental Activities</i>					
<i>Long-Term Liabilities</i>	<u>\$1,577,658</u>	<u>\$297,538</u>	<u>(\$399,800)</u>	<u>\$1,475,396</u>	<u>\$169,782</u>

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

The serial, term and capital appreciation bonds remained outstanding at June 30, 2014. The capital appreciation bonds were originally sold at a discount of \$335,003, which is being accreted annually until the point of maturity of the capital appreciation bonds, which is 2018 through 2020.

The maturity amount of outstanding capital appreciation bonds at June 30, 2014 is \$420,000. The accretion recorded for 2014 was \$28,573, for a total outstanding bond liability of \$236,739 at June 30, 2014.

**McDonald Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2014*

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

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

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 special revenue fund.

The overall debt margin of the School District as of June 30, 2014, was \$3,933,137 with an unvoted debt margin of \$52,113. Principal and interest requirements to retire general obligation bonds and capital appreciation outstanding at June 30, 2014, are as follows:

Fiscal Year Ending June 30	General Obligation Bonds					
	Serial		Capital Appreciation		Term	
	Principal	Interest	Principal	Accretion	Principal	Interest
2015	\$125,000	\$12,780	\$0	\$0	\$0	\$17,835
2016	130,000	7,902	0	0	0	17,835
2017	135,000	2,700	0	0	0	17,835
2018	0	0	32,045	107,955	0	17,835
2019	0	0	28,176	111,824	0	17,835
2020 - 2023	0	0	24,776	115,224	435,000	44,998
<b>Total</b>	<b>\$390,000</b>	<b>\$23,382</b>	<b>\$84,997</b>	<b>\$335,003</b>	<b>\$435,000</b>	<b>\$134,173</b>

**Note 10 – Capital Lease**

During fiscal year 2010, the School District entered into a capitalized lease obligation for copier and printer equipment. This lease meets criteria for a capital lease 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	(42,929)
<b>Total Book Value as of June 30, 2014</b>	<b>\$55,194</b>

**McDonald Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2014*

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At June 30, 2014, the School District has the fiscal year 2015 payment remaining consisting of principal and interest payments of \$22,041 and \$723, respectively.

**Note 11 - Interfund Transfers**

The general fund made a transfer of \$180,000 to the permanent improvement capital projects fund to help provide funding for fiscal year 2014. The general fund transferred \$23,550 to the district managed student activity special revenue fund to help fund athletic events.

**Note 12 - Jointly Governed Organizations**

***Northeast Ohio Management Information Network (NEOMIN)*** NEOMIN is a jointly governed organization among twenty-nine school districts and two educational service centers in Trumbull and Ashtabula Counties. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. Each of the districts supports NEOMIN based upon a per pupil charge. McDonald Local School District paid \$21,891 to NEOMIN during fiscal year 2014.

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 2014. The Board exercises total control over the operations of NEOMIN including budgeting, appropriating, contracting and designating management. The degree of control exercised by any participating school district is limited to its representation on the Governing Board. To obtain a copy of NEOMIN's financial statements, write to the Trumbull County Educational Service Center, 6000 Youngstown Warren Road, Niles, Ohio 44446.

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

**Note 13 – Public Entity Pools**

***Shared Risk Pool***

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

**McDonald Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2014*

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**Note 14 - 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 and a comprehensive deductible of \$500.

Real property and contents are fully insured. Limits of insurance on real property and equipment are \$36,363,141 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 Benefit Consortium***

The School District has contracted with the Trumbull County Schools Employee Insurance Benefit Consortium to provide employee medical/surgical, dental, and prescription drug benefits. The Trumbull County Schools Employee Insurance Benefit Consortium is a shared risk pool comprised of sixteen Trumbull County school districts. Rates are set through an annual calculation process. The McDonald Local School District pays a monthly contribution which is placed in a common fund from which claim payments are made for all participating school districts. Medical Mutual is the third party administrator for the Consortium. Claims are paid for all participants regardless of claims flow. The board of directors has the right to return monies to an exiting district subsequent to the settlement of all expenses and claims. Employees can choose between three different medical/surgical/prescription plans. The medical/surgical prescription drug premiums for the first option are \$1,382 for family coverage and \$531 for single coverage per employee per month. Classified staff pays 10 percent of this premium and certified staff pays 10 percent of this premium. The School District pays the remaining percentage. The medical/surgical prescription drug premiums for the second option are \$1,241 for family coverage and \$477 for single coverage per employee per month. Both classified and certified staff pays 10 percent of this premium and the remaining percentage is paid by the School District. The third option is a high deductible plan where the Board pays \$1,099 for family coverage and \$422 for single coverage. No employees have selected the third option. If the School District were to withdraw from the Consortium, there would be no liability because premium levels fund a reserve for subsequent claim payments.

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

***Worker's Compensation***

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

**McDonald Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2014*

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**Note 15 – 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](http://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, 2014, the allocation to pension and death benefits was 13.10 percent. The remaining 0.90 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, 2014, 2013 and 2012 were \$73,165, \$68,129 and \$65,754, respectively. For fiscal year 2014, 75.08 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2013 and 2012.

***State Teachers Retirement System***

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](http://www.strsoh.org).

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary 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.



**McDonald Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2014*

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

Funding Policy - 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 11 percent for members and 14 percent for employers. The statutory maximum employee contribution rate was increased one percent July 1, 2013, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2014, plan members were required to contribute 11 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 \$419,798 and \$10,636 for the fiscal year ended June 30, 2014, \$376,177 and \$0 for the fiscal year ended June 30, 2013, and \$360,736 and \$0 for the fiscal year ended June 30, 2012. For fiscal year 2014, 78.71 percent has been contributed for the DB plan and the Combined Plan, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2013 and 2012.

Contributions made to STRS Ohio for the DC Plan for fiscal year 2014 were \$6,257 made by the School District and \$4,916 made by the plan members. In addition, member contributions of \$8,357 were made for fiscal year 2014 for the defined contribution portion of the Combined Plan.

## **Note 16 – 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 administered 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, Medicare Advantage, 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](http://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 2014, 0.14 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 2014, this amount was \$20,250. During fiscal year 2014, the School District paid \$9,203 in surcharge.

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

The School District's contributions for health care for the fiscal years ended June 30, 2014, 2013 and 2012 were \$782, \$728 and \$2,848, respectively. For fiscal year 2014, 75.08 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2013 and 2012.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2014, 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, 2014, 2013 and 2012, were \$4,245, \$3,953 and \$3,883, respectively. For fiscal year 2014, 75.08 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2013 and 2012.

***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](http://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 2014, STRS Ohio allocated employer contributions equal to one percent of covered payroll to post-employment health care. The School District's contributions for health care for the fiscal years ended June 30, 2014, 2013 and 2012 were \$31,614, \$28,937 and \$27,749, respectively. For fiscal year 2014, 84.36 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2013 and 2012. The STRS Board voted to discontinue the current one percent allocation to the health care fund effective July 1, 2014.

**Note 17 - Other Employee Benefits**

***Compensated Absences***

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

**McDonald Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2014*

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***Life Insurance Benefits***

The School District provides life insurance to most employees through Principals Insurance, Inc., in the amount of \$100,000 for all employees. Premiums are paid for by the Board of Education.

***Retirement Incentive***

The School District Board of Education offered employees participation in a Retirement Incentive program in fiscal years 2008, 2009 and 2010. Participation was open to teachers who were eligible for service retirement under the State Teachers Retirement System (STRS) pursuant to O.R.C. 3307.38 and any applicable STRS regulations. In fiscal year 2010, three employees took the retirement incentive of \$15,000. The remaining retirement incentive will be paid out in fiscal year 2015.

**Note 18 – 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, the effect of any such disallowed claims on the overall financial position of the School District at June 30, 2014, if applicable, cannot be determined at this time.

***Litigation***

The School District is not party to legal proceedings as of June 30, 2014.

**Note 19 - Set Asides**

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

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

**McDonald Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2014*

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	<u>Capital Improvements</u>
Set-Aside Balance as of June 30, 2013	\$0
Current Year Set-aside Requirement	149,972
Offsets	(155,210)
Qualifying Disbursements	(452)
Total	(\$5,690)
Set-aside Balance Carried Forward to Future Fiscal Years	\$0
Set-aside Balance as of June 30, 2014	\$0

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

**Note 20 - Encumbrances**

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

<b>Governmental Funds</b>	
General	\$14,273
Other Governmental Funds	35,094
<i>Total Governmental Funds</i>	<i>\$49,367</i>

**Note 21 – Subsequent Event**

On November 4, 2014, the voters approved a 4.3 mill permanent improvement levy for capital improvements.



# Dave Yost • Auditor of State

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

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

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, and the aggregate remaining fund information of McDonald Local School District, Trumbull County, (the District) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 16, 2015.

### ***Internal Control Over Financial Reporting***

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

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

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

### ***Compliance and Other Matters***

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

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[www.ohioauditor.gov](http://www.ohioauditor.gov)

***Purpose of this Report***

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

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  
Columbus, Ohio

March 16, 2015



# Dave Yost • Auditor of State

**MCDONALD LOCAL SCHOOL DISTRICT**

**TRUMBULL COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
MAY 7, 2015**