



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO



**Auditor of State
Betty Montgomery**

88 East Broad Street
P. O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490
www.auditor.state.oh.us

January 21, 2003

The attached audit was conducted and prepared for release prior to the commencement of my term of office on January 13, 2003. Thus, I am releasing this audit under the signature of my predecessor.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

**MCDONALD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY**

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STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

Voinovich Government Center
242 Federal Plaza West
Suite 302
Youngstown, Ohio 44503
Telephone 330-797-9900
800-443-9271
Facsimile 330-797-9949
www.auditor.state.oh.us

REPORT OF INDEPENDENT ACCOUNTANTS

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

To the Board of Education:

We have audited the accompanying general-purpose financial statements of the McDonald Local School District, Trumbull County, (the District) as of and for the year ended June 30, 2001, as listed in the table of contents. These general-purpose financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the McDonald Local School District., Trumbull County, as of June 30, 2001, and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.

During the year ended June 30, 2001, the Government adopted Governmental Accounting Statement No. 33.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2002 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be read in conjunction with this report in considering the results of our audit.

A handwritten signature in black ink, appearing to read "Jim Petro".

Jim Petro
Auditor of State

December 20, 2002

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MCDONALD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO
COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 2001

| | Governmental Fund Types | | | | Proprietary Fund Types | | Fiduciary Fund Types | Account Groups | | Total (Memorandum Only) |
|--|-------------------------|--------------------|------------------|---------------------|------------------------|---------------------|-------------------------|----------------------------|-------------------------------------|-------------------------------|
| | General | Special Revenue | Debt Service | Capital Projects | Enterprise | Internal Service | Trust and Agency | General Fixed Assets | General Long-Term Obligations | |
| ASSETS AND OTHER DEBITS | | | | | | | | | | |
| ASSETS: | | | | | | | | | | |
| Equity in pooled cash and cash equivalents | \$17,681 | \$44,389 | \$16,146 | \$4,825,513 | \$24 | \$250 | \$21,306 | | | \$4,925,309 |
| Receivables (net of allowances of uncollectibles): | | | | | | | | | | |
| Property taxes - current & delinquent | 1,142,455 | 311,696 | 202,985 | 66,134 | | | | | | 1,723,270 |
| Accrued interest | | | | 53,687 | | | | | | 53,687 |
| Due from other governments. | | 4,041 | | 11,975,443 | | | | | | 11,979,484 |
| Materials and supplies inventory | | | | | 488 | | | | | 488 |
| Restricted assets: | | | | | | | | | | |
| Equity in pooled cash and cash equivalents. | 57,759 | | | | | | | | | 57,759 |
| Property, plant and equipment (net of accumulated depreciation where applicable) | | | | | | | | \$5,244,387 | | 5,244,387 |
| OTHER DEBITS: | | | | | | | | | | |
| Amount available in debt service fund | | | | | | | | | \$16,146 | 16,146 |
| Amount to be provided for retirement of general long-term obligations | | | | | | | | | 2,279,473 | 2,279,473 |
| Total assets and other debits | <u>\$1,217,895</u> | <u>\$360,126</u> | <u>\$219,131</u> | <u>\$16,920,777</u> | <u>\$512</u> | <u>\$250</u> | <u>\$21,306</u> | <u>\$5,244,387</u> | <u>\$2,295,619</u> | <u>\$26,280,003</u> |

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

(Continued)

MCDONALD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO
COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS (CONTINUED)
JUNE 30, 2001

| | Governmental Fund Types | | | | Proprietary Fund Types | | Fiduciary Fund Types | Account Groups | | Total (Memorandum Only) |
|---|-------------------------|--------------------|------------------|---------------------|------------------------|---------------------|-------------------------|----------------------------|-------------------------------------|-------------------------------|
| | General | Special Revenue | Debt Service | Capital Projects | Enterprise | Internal Service | Trust and Agency | General Fixed Assets | General Long-Term Obligations | |
| LIABILITIES, EQUITY AND OTHER CREDITS | | | | | | | | | | |
| LIABILITIES: | | | | | | | | | | |
| Accounts payable | \$3,682 | \$11,953 | | \$2,721 | | | | | | \$18,356 |
| Contracts payable | | | | 102,795 | | | | | | 102,795 |
| Accrued wages and benefits | 386,398 | 8,767 | | | \$5,321 | | | | | 400,486 |
| Compensated absences payable | 107,645 | | | | 1,775 | | | \$347,665 | | 457,085 |
| Pension obligation payable | 66,342 | 512 | | | 1,573 | | | 21,485 | | 89,912 |
| Due to other governments | 20,438 | 409 | | | 203 | | | | | 21,050 |
| Deferred revenue | 1,137,794 | 311,696 | \$202,985 | 12,041,577 | 68 | | | | | 13,694,120 |
| Due to students | | | | | | | \$18,134 | | | 18,134 |
| General obligation bonds payable | | | | | | | | | 1,904,631 | 1,904,631 |
| Energy conservation notes payable | | | | | | | | | 21,838 | 21,838 |
| Total liabilities | 1,722,299 | 333,337 | 202,985 | 12,147,093 | 8,940 | | 18,134 | | 2,295,619 | 16,728,407 |
| EQUITY AND OTHER CREDITS: | | | | | | | | | | |
| Investment in general fixed assets | | | | | | | | \$5,244,387 | | 5,244,387 |
| Retained earnings (accumulated deficit): unreserved | | | | | -8,428 | \$250 | | | | -8,178 |
| Fund balances: | | | | | | | | | | |
| Reserved for encumbrances | 595 | 390 | | 189,992 | | | | | | 190,977 |
| Reserved for debt service | | | 16,146 | | | | | | | 16,146 |
| Reserved for tax revenue unavailable for appropriation | 4,661 | | | | | | | | | 4,661 |
| Reserved for BWC refunds | 23,988 | | | | | | | | | 23,988 |
| Reserved for capital acquisition | 33,771 | | | | | | | | | 33,771 |
| Unreserved-undesignated (deficit) | -567,419 | 26,399 | | 4,583,692 | | | 3,172 | | | 4,045,844 |
| Total equity and other credits | -504,404 | 26,789 | 16,146 | 4,773,684 | -8,428 | 250 | 3,172 | 5,244,387 | | 9,551,596 |
| Total liabilities, equity and other credits | \$1,217,895 | \$360,126 | \$219,131 | \$16,920,777 | \$512 | \$250 | \$21,306 | \$5,244,387 | \$2,295,619 | \$26,280,003 |

**MCDONALD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO
COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUND
FOR THE YEAR ENDED JUNE 30, 2001**

| | Governmental Fund Types | | | | Fiduciary Fund Type | Total (Memorandum Only) |
|--|--------------------------|------------------------|------------------------|---------------------------|------------------------|-------------------------------|
| | General | Special Revenue | Debt Service | Capital Projects | Expendable Trust | |
| Revenues: | | | | | | |
| From local sources: | | | | | | |
| Taxes | \$922,254 | \$296,809 | \$184,792 | \$54,631 | | \$1,458,486 |
| Earnings on investments | 30,114 | | | 181,633 | | 211,747 |
| Extracurricular | | 88,025 | | | | 88,025 |
| Other local revenues | 38,705 | | | | \$1,000 | 39,705 |
| Intergovernmental - State | 3,450,949 | 64,541 | 18,623 | 2,783,205 | | 6,317,318 |
| Intergovernmental - Federal | | 123,906 | | | | 123,906 |
| Total revenue | 4,442,022 | 573,281 | 203,415 | 3,019,469 | 1,000 | 8,239,187 |
| Expenditures: | | | | | | |
| Current: | | | | | | |
| Instruction: | | | | | | |
| Regular | 2,779,161 | 85,397 | | 44,222 | | 2,908,780 |
| Special | 415,288 | 178,973 | | | | 594,261 |
| Vocational | 58,980 | | | | | 58,980 |
| Other | 56,976 | 46,366 | | | | 103,342 |
| Support services: | | | | | | |
| Pupil | 120,889 | | | | 2,000 | 122,889 |
| Instructional staff | 88,253 | | | | 942 | 89,195 |
| Board of Education | 35,065 | | | | | 35,065 |
| Administration | 379,928 | 38,056 | | | | 417,984 |
| Fiscal | 153,009 | 5,662 | | 901 | | 159,572 |
| Operations and maintenance | 330,005 | 174,704 | | 52,979 | | 557,688 |
| Pupil transportation | 118,305 | | | | | 118,305 |
| Extracurricular activities | 122,784 | 59,198 | | | | 181,982 |
| Facilities acquisition and construction | | | | 644,760 | | 644,760 |
| Debt service: | | | | | | |
| Principal retirement | | | 2,148,527 | | | 2,148,527 |
| Interest and fiscal charges | | | 162,523 | | | 162,523 |
| Total expenditures | 4,658,643 | 588,356 | 2,311,050 | 742,862 | 2,942 | 8,303,853 |
| Excess (deficiency) of revenues over (under) expenditures | -216,621 | -15,075 | -2,107,635 | 2,276,607 | -1,942 | - 64,666 |
| Other financing sources (uses): | | | | | | |
| Proceeds from the sale of fixed assets | | | | 1,935 | | 1,935 |
| Operating transfers in | | 500 | | | | 500 |
| Operating transfers out | -41,000 | | | | | -41,000 |
| Total other financing sources (uses) | -41,000 | 500 | | 1,935 | | -38,565 |
| Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses | -257,621 | -14,575 | -2,107,635 | 2,278,542 | -1,942 | -103,231 |
| Fund balances (deficit), July 1 | -246,783 | 41,364 | 2,123,781 | 2,562,982 | 5,114 | 4,486,458 |
| Fund balances (deficit), June 30 | <u><u>-\$504,404</u></u> | <u><u>\$26,789</u></u> | <u><u>\$16,146</u></u> | <u><u>\$4,841,524</u></u> | <u><u>\$3,172</u></u> | <u><u>\$4,383,227</u></u> |

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

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**MCDONALD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO
COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL COMPARISON (NON-GAAP BUDGETARY BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2001**

| | General | | | Special Revenue | | |
|---|-------------------|------------------|---|-------------------|-----------------|---|
| | Revised Budget | Actual | Variance: Favorable (Unfavorable) | Revised Budget | Actual | Variance: Favorable (Unfavorable) |
| Revenues: | | | | | | |
| From local sources: | | | | | | |
| Taxes..... | \$923,261 | \$923,261 | \$0 | \$296,809 | \$296,809 | \$0 |
| Earnings on investments..... | 30,114 | 30,114 | 0 | | | |
| Extracurricular | | | | 87,556 | 88,025 | 469 |
| Other local revenues..... | 38,705 | 38,705 | 0 | | | |
| Intergovernmental - State..... | 3,442,437 | 3,442,437 | 0 | 64,541 | 64,541 | 0 |
| Intergovernmental - Federal..... | | | | 119,865 | 119,865 | 0 |
| Total revenues..... | <u>4,434,517</u> | <u>4,434,517</u> | <u>0</u> | <u>568,771</u> | <u>569,240</u> | <u>469</u> |
| Expenditures: | | | | | | |
| Current: | | | | | | |
| Instruction: | | | | | | |
| Regular..... | 2,638,111 | 2,606,708 | 31,403 | 82,761 | 87,007 | -4,246 |
| Special..... | 437,026 | 414,526 | 22,500 | 181,388 | 177,195 | 4,193 |
| Vocational..... | 61,964 | 56,964 | 5,000 | | | |
| Other..... | 56,976 | 56,976 | 0 | 46,365 | 46,365 | 0 |
| Support services: | | | | | | |
| Pupil..... | 120,630 | 117,629 | 3,001 | | | |
| Instructional staff..... | 86,333 | 86,333 | 0 | | | |
| Board of Education..... | 36,887 | 36,887 | 0 | | | |
| Administration..... | 368,348 | 368,348 | 0 | 42,841 | 38,056 | 4,785 |
| Fiscal..... | 155,025 | 155,025 | 0 | 5,412 | 5,337 | 75 |
| Operations and maintenance..... | 336,758 | 336,758 | 0 | 198,470 | 198,470 | 0 |
| Pupil transportation..... | 117,871 | 117,871 | 0 | | | |
| Extracurricular activities..... | 122,533 | 122,533 | 0 | 59,583 | 59,583 | 0 |
| Facilities acquisition and construction... | | | | | | |
| Debt service: | | | | | | |
| Principal retirement..... | | | | | | |
| Interest and fiscal charges..... | | | | | | |
| Total expenditures..... | <u>4,538,462</u> | <u>4,476,558</u> | <u>61,904</u> | <u>616,820</u> | <u>612,013</u> | <u>4,807</u> |
| Excess (deficiency) of revenues over (under) expenditures..... | <u>-103,945</u> | <u>-42,041</u> | <u>61,904</u> | <u>-48,049</u> | <u>-42,773</u> | <u>5,276</u> |
| Other financing sources (uses): | | | | | | |
| Refund of prior year's expenditures..... | 8,512 | 8,512 | 0 | | | |
| Operating transfers in..... | 32,884 | 32,884 | 0 | 500 | 500 | 0 |
| Operating transfers out..... | -112,201 | -112,201 | 0 | | | |
| Advances in..... | 0 | 2,100 | 2,100 | | | |
| Proceeds from the sale of fixed assets... | | | | | | |
| Total other financing sources (uses).. | <u>-70,805</u> | <u>-68,705</u> | <u>2,100</u> | <u>500</u> | <u>500</u> | <u>0</u> |
| Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses... | <u>-174,750</u> | <u>-110,746</u> | <u>64,004</u> | <u>-47,549</u> | <u>-42,273</u> | <u>5,276</u> |
| Fund balances, July 1..... | 115,640 | 115,640 | 0 | 62,838 | 62,838 | 0 |
| Prior year encumbrances appropriated... | <u>66,270</u> | <u>66,270</u> | <u>0</u> | <u>11,702</u> | <u>11,702</u> | <u>0</u> |
| Fund balances, June 30..... | <u>\$7,160</u> | <u>\$71,164</u> | <u>\$64,004</u> | <u>\$26,991</u> | <u>\$32,267</u> | <u>\$5,276</u> |

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

| Debt Service | | | Capital Projects | | | Total (Memorandum only) | | |
|-------------------|-------------------|-----------------------------------|--------------------|--------------------|-----------------------------------|-------------------------|--------------------|-----------------------------------|
| Budget Revised | Actual | Variance: Favorable (Unfavorable) | Budget Revised | Actual | Variance: Favorable (Unfavorable) | Budget Revised | Actual | Variance: Favorable (Unfavorable) |
| \$184,792 | \$184,792 | \$0 | \$54,631 | \$54,631 | \$0 | \$1,459,493 | \$1,459,493 | \$0 |
| | | | 127,946 | 127,946 | 0 | 158,060 | 158,060 | 0 |
| | | | | | | 87,556 | 88,025 | 469 |
| | | | | | | 38,705 | 38,705 | 0 |
| 18,623 | 18,623 | 0 | 2,783,205 | 2,783,205 | 0 | 6,308,806 | 6,308,806 | 0 |
| | | | | | | 119,865 | 119,865 | 0 |
| <u>203,415</u> | <u>203,415</u> | <u>0</u> | <u>2,965,782</u> | <u>2,965,782</u> | <u>0</u> | <u>8,172,485</u> | <u>8,172,954</u> | <u>469</u> |
| | | | 56,000 | 64,721 | -8,721 | 2,776,872 | 2,758,436 | 18,436 |
| | | | | | | 618,414 | 591,721 | 26,693 |
| | | | | | | 61,964 | 56,964 | 5,000 |
| | | | | | | 103,341 | 103,341 | 0 |
| | | | | | | 120,630 | 117,629 | 3,001 |
| | | | | | | 86,333 | 86,333 | 0 |
| | | | | | | 36,887 | 36,887 | 0 |
| | | | | | | 411,189 | 406,404 | 4,785 |
| | | | 901 | 901 | 0 | #VALUE! | #VALUE! | 75 |
| | | | 1,854,492 | 54,492 | 1,800,000 | 2,389,720 | 589,720 | 1,800,000 |
| | | | | | | 117,871 | 117,871 | 0 |
| | | | | | | 182,116 | 182,116 | 0 |
| | | | 2,564,723 | 836,947 | 1,727,776 | 2,564,723 | 836,947 | 1,727,776 |
| 2,148,527 | 2,148,527 | 0 | | | | 2,148,527 | 2,148,527 | 0 |
| 163,580 | 162,523 | 1,057 | | | | 163,580 | 162,523 | 1,057 |
| <u>2,312,107</u> | <u>2,311,050</u> | <u>1,057</u> | <u>4,476,116</u> | <u>957,061</u> | <u>3,519,055</u> | <u>11,943,505</u> | <u>8,356,682</u> | <u>3,586,823</u> |
| <u>-2,108,692</u> | <u>-2,107,635</u> | <u>1,057</u> | <u>-1,510,334</u> | <u>2,008,721</u> | <u>3,519,055</u> | <u>-3,771,020</u> | <u>-183,728</u> | <u>3,587,292</u> |
| | | | | | | 8,512 | 8,512 | 0 |
| | | | | | | #VALUE! | #VALUE! | 0 |
| | | | | | | -112,201 | -112,201 | 0 |
| | | | | | | 0 | 2,100 | 2,100 |
| | | | 1,935 | 1,935 | 0 | 1,935 | 1,935 | 0 |
| | | | <u>1,935</u> | <u>1,935</u> | <u>0</u> | <u>#VALUE!</u> | <u>#VALUE!</u> | <u>2,100</u> |
| -2,108,692 | -2,107,635 | 1,057 | -1,508,399 | 2,010,656 | 3,519,055 | -3,839,390 | -249,998 | 3,589,392 |
| 2,123,781 | 2,123,781 | 0 | 2,561,973 | 2,561,973 | 0 | 4,864,232 | 4,864,232 | 0 |
| 0 | 0 | 0 | 25,216 | 25,216 | 0 | 103,188 | 103,188 | 0 |
| <u>\$15,089</u> | <u>\$16,146</u> | <u>\$1,057</u> | <u>\$1,078,790</u> | <u>\$4,597,845</u> | <u>\$3,519,055</u> | <u>\$1,128,030</u> | <u>\$4,717,422</u> | <u>\$3,589,392</u> |

**MCDONALD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO
COMBINED STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN RETAINED EARNINGS
ALL PROPRIETARY FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2001**

| | <u>Proprietary Fund Types</u> | | <u>Total (Memorandum Only)</u> |
|---|-------------------------------|-----------------------------|--|
| | <u>Enterprise</u> | <u>Internal Service</u> | |
| Operating revenues: | | | |
| Sales/charges for service | \$28,106 | | \$28,106 |
| Other operating revenues | | \$29,552 | 29,552 |
| Total operating revenues | 28,106 | 29,552 | 57,658 |
| Operating expenses: | | | |
| Personal services | 49,239 | | 49,239 |
| Contract services | 924 | | 924 |
| Materials and supplies | 35,373 | | 35,373 |
| Other operating expense | | 29,332 | 29,332 |
| Total operating expenses | 85,536 | 29,332 | 114,868 |
| Operating income (loss) | -57,430 | 220 | -57,210 |
| Nonoperating revenues: | | | |
| Operating grants | 17,492 | | 17,492 |
| Federal commodities | 1,805 | | 1,805 |
| Total nonoperating revenues | 19,297 | | 19,297 |
| Net income (loss) before operating transfers | -38,133 | 220 | -37,913 |
| Operating transfers in. | 40,500 | | 40,500 |
| Net income. | 2,367 | 220 | 2,587 |
| Retained earnings (accumulated deficit) at July 1. | -10,795 | 30 | -10,765 |
| Retained earnings (accumulated deficit) at June 30 | <u>-8,428</u> | <u>\$250</u> | <u>-\$8,178</u> |

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

**MCDONALD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO
COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2001**

| | <u>Proprietary Fund Types</u> | | Total (Memorandum Only) |
|--|-------------------------------|-----------------------------|--|
| | <u>Enterprise</u> | <u>Internal Service</u> | |
| Cash flows from operating activities: | | | |
| Cash received from sales/service charges | \$28,106 | | \$28,106 |
| Cash received from other operations. | | \$29,552 | 29,552 |
| Cash payments for personal services. | -49,375 | | -49,375 |
| Cash payments for contract services | -924 | | -924 |
| Cash payments for materials and supplies | -33,675 | | -33,675 |
| Cash payments for other expenses | | -29,332 | -29,332 |
| | <u> </u> | <u> </u> | <u> </u> |
| Net cash provided by (used in) operating activities | <u>-55,868</u> | <u>220</u> | <u>-55,648</u> |
| Cash flows from noncapital financing activities: | | | |
| Cash received from operating grants. | 17,492 | | 17,492 |
| Cash received used in interfund loans | -2,100 | | -2,100 |
| Cash received from transfers in | 40,500 | | 40,500 |
| | <u> </u> | <u> </u> | <u> </u> |
| Net cash provided by noncapital financing activities | <u>55,892</u> | <u> </u> | <u>55,892</u> |
| Net increase in cash and cash equivalents | 24 | 220 | 244 |
| Cash and cash equivalents at beginning of year | 0 | 30 | 30 |
| Cash and cash equivalents at end of year. | <u>\$24</u> | <u>\$250</u> | <u>\$274</u> |
| Reconciliation of operating income (loss) to net cash provided by (used in) operating activities: | | | |
| Operating income (loss) | -\$57,430 | \$220 | -\$57,210 |
| Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities: | | | |
| Federal donated commodities. | 1,805 | | 1,805 |
| Changes in assets and liabilities: | | | |
| Increase in supplies inventory. | -144 | | -144 |
| Decrease in accrued wages and benefits | -495 | | -495 |
| Increase in compensated absences payable. | 346 | | 346 |
| Increase in due to other governments. | 90 | | 90 |
| Decrease in pension obligation payable | -77 | | -77 |
| Increase in deferred revenue | 37 | | 37 |
| | <u> </u> | <u> </u> | <u> </u> |
| Net cash provided by (used in) operating activities. | <u>-\$55,868</u> | <u>\$220</u> | <u>-55,648</u> |

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

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

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

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

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

The District is the 546th largest in the State of Ohio (among 682 public and community school districts in the state) in terms of enrollment. It currently operates one elementary school and one comprehensive middle/high school. The District is staffed by 17 non-certified and 57 certificated personnel to provide services to approximately 814 students and other community members.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The general purpose financial statements (GPFS) of the 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 District also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued prior to November 30, 1989 to its proprietary activities unless those pronouncements conflict with or contradict GASB pronouncements. The District's significant accounting policies are described below.

A. Reporting Entity

The District's reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity". When applying GASB Statement No. 14, management has considered all potential component units. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the Board's ability to exercise significant oversight responsibility. The most significant manifestation of this ability is financial interdependence. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of the governing authority, the designation of management, the ability to significantly influence operations, and the accountability for fiscal matters.

A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the District and/or its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the District is able to exercise oversight responsibilities. Based upon the application of these criteria, there are no potential component units that should be blended or discretely presented in the financial statements of the District. The following organizations are described due to their relationship with the District:

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

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

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

JOINTLY GOVERNED ORGANIZATIONS

North East Ohio Management Information Network (NEOMIN)

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

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

North East Ohio Instructional Media Center (NEOIMC)

NEOIMC is a jointly governed organization among 45 school districts. The organization was formed for the purpose of providing quality films and/or other media to support the curricula of the District. Each member pays a monthly premium based on use of the media materials. NEOIMC is governed by an advisory committee made up of a member from a parochial school, a JVS, one county superintendent from each participating county, one city superintendent, and two local superintendents rotating every two years. Financial information can be obtained by contacting the treasurer at the Trumbull County Educational Service Center, 347 North Park Avenue, Warren, Ohio 44481.

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

NEO/SERRC is a special education service center which selects its own board, adopts its own budget and receives direct federal and state grants for its operation. NEO/SERRC is governed by a governing board of 39 members made up of representatives from 35 superintendents of the participating districts, one non-public school, one county board of mental retardation and two parents whose terms rotate every year. Information can be obtained by contacting the treasurer at the Mahoning County Educational Service Center, 2801 Market Street, Youngstown, Ohio 44507.

PUBLIC ENTITY RISK POOL

Ohio School Boards Association Workers' Compensation Group Rating Plan

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

The Plan's business and affairs are conducted by a three member Board of Directors consisting of the President, the President-Elect, and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the Plan. Each year, the participating school districts pay an enrollment fee to the Plan to cover the costs of administering the program.

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

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

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

B. Fund Accounting

The District uses funds and account groups to report its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain school district activities or functions. Funds are classified into three categories: governmental, proprietary and fiduciary. Each category is divided into separate fund types.

GOVERNMENTAL FUNDS

Governmental funds are those through which most governmental functions of the District are financed. The acquisition, use and balances of the District's expendable financial resources and the related liabilities (except those accounted for in proprietary funds) are accounted for through governmental funds. The following are the District's governmental fund types:

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

Special Revenue Funds - The special revenue funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes.

Debt Service Fund - The debt service fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Capital Projects Funds - The capital projects funds are used to account for financial resources to be used for the acquisition of construction of major capital facilities (other than those financed by proprietary funds).

PROPRIETARY FUNDS

Proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector where the determination of net income is necessary or useful to sound financial administration. The following are the District's proprietary fund types:

Enterprise Fund - The enterprise fund is used to account for operations (a) that are financed and operated in a manner similar to private business enterprises--where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

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

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

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

Internal Service Fund - The internal service fund is used to account for the financing of goods and services provided by one department or agency to other departments or agencies of the District, or to other governments, on a cost-reimbursement basis.

FIDUCIARY FUNDS

Fiduciary funds are used to account for assets held by the District in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. These include an expendable trust fund and an agency fund. The expendable trust fund is accounted for in the same manner as governmental funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The agency fund is presented on a budget basis, with note disclosure, regarding items which, in other fund types, would be subject to accrual. See Note 3.C. for agency fund accruals which, in other fund types, would be recognized in the combined balance sheet.

ACCOUNT GROUPS

To make a clear distinction between fixed assets related to specific funds and those of general government, and between long-term liabilities related to specific funds and those of general nature, the following account groups are used.

General Fixed Assets Account Group - This group of accounts is established to account for all fixed assets of the District, other than those accounted for in the proprietary funds.

General Long-Term Obligations Account Group - This group of accounts is established to account for all long-term obligations of the District, other than those accounted for in the proprietary funds.

C. Measurement Focus/Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds and the expendable trust fund are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations of these funds are included on the balance sheet. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets.

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

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

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

The modified accrual basis of accounting is followed for governmental funds and the expendable trust fund. Under the modified accrual basis of accounting, revenues are recognized when they become both measurable and available to finance expenditures of the current period, which for the District is sixty days after the June 30 year end. Revenues accrued at the end of the year include taxes, (to the extent they are intended to finance the current fiscal year), interest, and accounts (student fees and tuition). Current property taxes measurable as of June 30, 2001, and which are intended to finance fiscal 2002 operations, have been recorded as deferred revenues. Delinquent property taxes measurable and available (received within 60 days) are recognized as revenue. In proprietary funds, unused donated commodities are reported as deferred revenue.

The District reports deferred revenue on its combined balance sheet. Deferred revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to the recognition of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On the modified accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied and the resources are available. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been met and the resources are available.

Expenditures (decreases in net financial resources) are recognized in the period in which the fund liability is incurred with the following exception: general long-term obligation principal and interest are reported only when due; and costs of accumulated unpaid vacation and sick leave are reported as expenditures in the period in which they will be liquidated with available financial resources rather than in the period earned by employees.

The proprietary funds are accounted for on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The fair value of donated commodities used during the year is reported in the operating statement as an expense and a like amount is reported as deferred commodities revenue.

On the accrual basis of accounting, revenue from nonexchange transactions, such as grants, entitlements and donations, is recognized in the fiscal year in which all eligibility requirements have been met. The proprietary funds receive no revenue from property taxes.

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

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

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

D. Budgets

The District is required by state statute to adopt an annual appropriated cash basis budget for all funds. The specific timetable for fiscal year 2001 is as follows:

1. Prior to January 15 of the preceding year, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The expressed purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the board-adopted budget is filed with the Trumbull County Budget Commission for tax rate determination.
3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statement reflect the amounts set forth in the final Amended Certificate issued for fiscal year 2001.
4. By July 1, the annual Appropriation Resolution is legally enacted by the Board of Education at the fund, function, object level of expenditures, which is the legal level of budgetary control. State statute permits a temporary appropriation to be effective until no later than October 1 of each year. Although the legal level of budgetary control was established at the fund, function, object level of expenditures, the District has elected to present budgetary statement comparisons at the fund and function level of expenditures. Resolution appropriations by fund type must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals.
5. Any revisions that alter the total of any fund type appropriation must be approved by the Board of Education.
6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions. All fund types completed the year within the amount of their legally authorized cash basis appropriation.
7. Appropriation amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations which either reallocated or increased the original appropriated amounts. All supplemental appropriations were legally enacted by the Board of Education in fiscal year 2001. The budget figures which appear in the statements of budgetary comparisons represent the permanent appropriation amounts plus all supplemental appropriations legally enacted during the year.

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

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

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

8. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the fund, function, object level.

Encumbrance accounting is utilized with District funds in the normal course of operations, for purchase orders and contract related expenditures. An encumbrance is a reserve on the available spending authority due to commitment for a future expenditure and does not represent a liability. For Governmental Fund Types, encumbrances outstanding at year-end, not included in accounts payable, appear as a reserve to the fund balance on a GAAP basis and as the equivalent of expenditures on a non-GAAP budgetary basis in order to demonstrate legal compliance. Note 14 provides a reconciliation of the budgetary and GAAP basis of accounting for governmental fund types and Note 11 provides disclosure of the encumbrances outstanding for the enterprise fund at fiscal year-end.

E. Cash and Investments

To improve cash management, cash received by the District is pooled. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the combined balance sheet.

During the fiscal year, the District's investments were limited to investments in the State Treasury Asset Reserve of Ohio (STAR Ohio), certificates of deposit, a repurchase agreement, and an AIM municipal bond mutual fund. Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts, such as certificates of deposit and repurchase agreements, are reported at cost.

STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2001.

For purposes of the combined statement of cash flows and for presentation on the combined balance sheet, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. Interest revenue credited to the general fund during fiscal 2001 amounted to \$30,114, which includes \$27,268 assigned from other District funds.

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

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

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

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

F. Inventory

Inventories of proprietary funds are valued at the lower of cost (first-in/first-out method) or market and expensed when used rather than when purchased.

G. Fixed Assets and Depreciation

1. *General Fixed Assets Account Group*

General fixed assets are capitalized at cost or estimated historical cost. Donated fixed assets are recorded at their fair market values as of the date donated. The District follows the policy of not capitalizing assets with a cost of less than \$500 and a useful life of less than five years. No depreciation is recognized for assets in the general fixed assets account group. The District has not included infrastructure in the general fixed assets account group.

2. *Proprietary Funds*

Equipment reflected in these funds are stated at historical cost or estimated historical cost and updated for the cost of additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date donated. Depreciation has been provided, where appropriate, on a straight-line basis over the following estimated useful lives:

| <u>Asset</u> | <u>Life (years)</u> |
|--------------------------------------|---------------------|
| Furniture, fixtures and equipment | 5-20 |

H. Intergovernmental Revenues

In governmental funds, entitlements and non-reimbursable grants (to the extent eligibility requirements have been met by year-end) are recorded as receivables and revenue when measurable and available. Reimbursement type grants are recorded as receivables and revenues when the related expenditures are incurred. Other than commodities, grants for proprietary fund operations are recognized as non-operating when measurable and earned. The District currently participates in various state and federal programs categorized as follows:

McDONALD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)

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

Entitlements

General Fund

State Foundation Program
School Bus Purchase Program

Special Revenue Fund

Education Management Information Systems (EMIS)

Non-Reimbursable Grants

Special Revenue Funds

Title VI-B
Emergency Levy
Disadvantaged Pupil Impact Aid
Title I
Title VI
Teacher Development
Management Information System
Safe Schools Grant
OSFC Maintenance Fund
SchoolNet Professional Development
Summer Intervention
Drug-Free Schools
Title VI-R

Capital Projects Funds

OSFC Construction Fund
Technology Equity
Permanent Improvement
One Net
SchoolNet Plus Praise Grant

Reimbursable Grants

General Fund

Driver Education Reimbursement

Special Revenue Fund

Vocational Equipment

Enterprise Funds

National School Lunch Program
Government Donated Commodities

Grants and entitlements amounted to approximately 78% of the District's operating revenue during the 2001 fiscal year.

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

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

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

I. Compensated Absences

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

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

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

Accumulated vacation and severance of governmental fund type employees meeting the above requirements have been recorded in the appropriate governmental fund as a current liability to the extent that the amounts are expected to be payable within the current available period. The balance of the liability is recorded in the general long-term obligations account group. Vacation and sick leave for employees meeting the above requirements who are paid from proprietary funds is recorded as an expense when earned.

J. Long-Term Obligations

Long-term debt is recognized as a liability of a governmental fund when due. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a government fund. The remaining portion of such obligations is reported in the general long-term obligations account group. Long-term liabilities expected to be financed from proprietary fund operations are accounted for in those funds.

K. Fund Equity

Reserved fund balances indicate that portion of fund equity which is not available for current appropriation or is legally segregated for a specific use. Fund balances are reserved for encumbrances, debt service, tax advance unavailable for appropriation, Bureau of Worker's Compensation (BWC) refunds, and capital acquisition. The unreserved portions of fund equity reflected for the governmental funds are available for use within the specific purposes of those funds. The reserve for property tax revenue unavailable for appropriation represents taxes recognized as revenue under GAAP but not available for appropriations under State statute.

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

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

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

L. Interfund Transactions

During the course of normal operations, the District has numerous transactions between funds. The most significant include:

1. Transfers of resources from one fund to another fund. The resources transferred are to be expended for operations by the receiving fund and are recorded as operating transfers, with the exception of agency funds, which do not show transfers of resources as operating transfers.
2. Reimbursements from one fund to another are treated as expenditures/expenses in the reimbursing fund and a reduction in expenditures/expenses in the reimbursed fund. Quasi-external transactions are accounted for as revenues, expenditures or expenses.
3. Short-term interfund loans and accrued interfund reimbursements and accrued operating transfers are reflected as "interfund loans receivable or payable". The District had no short-term interfund loans receivable and payable at June 30, 2001.
4. Long-term interfund loans that will not be repaid within the next year are termed "advances" and are shown as reservations of fund balances on the combined balance sheet for those funds that report advances to other funds as assets because they are not spendable, available resources. The District had no long-term advances receivable and payable at June 30, 2001.

An analysis of interfund transactions is presented in Note 5.

M. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents that are restricted in use by State statute. A fund balance reserve has also been established. See Note 16 for further detail.

N. Estimates

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

O. Memorandum Only - Total Columns

Total columns on the GPFS are captioned (Memorandum Only) to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with GAAP. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

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

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principle

GASB Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions," was implemented during fiscal 2001. This statement pertains to the financial reporting of certain types of revenue received by the District for which no value is given in return, including derived tax revenues, imposed nonexchange transactions, government-mandated nonexchange transactions, and voluntary nonexchange transactions. The adoption of this statement had no effect on fund balances/retained earnings as previously reported by the District at June 30, 2000.

B. Deficit Fund Balances/Retained Earnings

Fund balance/retained earnings at June 30, 2001 included the following individual fund deficits:

| | <u>Deficit Balance</u> |
|-------------------------------------|------------------------|
| General Fund | \$504,404 |
| <u>Special Revenue Funds</u> | |
| Drug-Free Schools | 23 |
| Title I | 5,513 |
| Title VI | 23 |
| Interactive Video Distance Learning | 217 |
| Teacher Development | 9 |
| Summer Intervention | 14 |
| Title VI-R | 60 |
| <u>Enterprise Fund</u> | |
| Food Service | 8,428 |

These funds complied with Ohio state law, which does not permit a cash basis deficit at year-end.

The deficit fund balances in the general fund and the special revenue funds are caused by accruing wage, benefit and retirement obligations in accordance with GAAP. These deficits will be eliminated by intergovernmental revenues and other resources not recognized at June 30.

The deficit retained earnings in the Food Service enterprise fund is a result of accruing wage, benefit and retirement obligations in accordance with GAAP. This deficit will be eliminated by user charges and intergovernmental revenues not recognized at June 30.

C. Agency Fund

The following is an accrual for the agency fund, which, in another fund type, would be recognized in the combined balance sheet:

| | |
|--------------------|-------|
| <u>LIABILITIES</u> | |
| Accounts payable | \$936 |

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

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS

The District maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Equity in Pooled Cash and Cash Equivalents". Statutes require the classification of monies held by the District into three categories:

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

Inactive deposits are public deposits the Board of Education has identified as not required for use within the current two 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 accounts, including passbook accounts.

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

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

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

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

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS - (Continued)

7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt instruments rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited.

An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

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

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements".

Deposits: At year-end, the carrying amount of the District's deposits was \$976,005 and the bank balance was \$1,031,565. These balances included \$1,016,565 in nonnegotiable certificates of deposit. Of the bank balance:

1. \$215,000 was covered by federal depository insurance; and
2. \$816,565 was uninsured and unregistered as defined by GASB although it was secured by collateral held by third party trustees, pursuant to section 135.181 Ohio Revised Code, in collateralized pools securing all public funds on deposit with specific depository institutions; these securities not being in the name of the District. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the District to a successful claim by the FDIC.

Collateral is required for demand deposits and certificates of deposits in excess of all deposits not covered by federal depository insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies, obligations of the State of Ohio and its municipalities, and obligations of other states. Obligations pledged to secure deposits must be delivered to a bank other than the institution in which the deposit is made. Written custodial agreements are required.

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

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS - (Continued)

Investments: Investments are categorized to give an indication of the level of risk assumed by the entity at year-end. Category 1 includes investments that are insured or registered or securities held by the District. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department, but not in the District's name. Investments in STAR Ohio are not categorized as they are not evidenced by securities that exist in physical or book entry form.

| | Category 3 | Reported Amount | Fair Value |
|-------------------------|------------------|--------------------|--------------------|
| Repurchase agreement | <u>\$170,497</u> | \$ 170,497 | \$ 170,497 |
| Investment in STAR Ohio | | 3,836,366 | 3,836,366 |
| Total investments | | <u>\$4,006,863</u> | <u>\$4,006,863</u> |

The classification of cash and cash equivalents on the combined balance sheet is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting".

A reconciliation between the classifications of cash and cash equivalents on the combined balance sheet (per GASB Statement No. 9) and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

| | Cash and Cash Equivalents/Deposits | Investments |
|---|---------------------------------------|--------------------|
| GASB Statement No. 9 | \$ 4,983,068 | \$ 0 |
| Investments of the Cash Management pool: | | |
| Repurchase agreement | (170,497) | 170,497 |
| Investment in STAR Ohio | (3,836,366) | 3,836,366 |
| Cash on hand | (200) | --- |
| GASB Statement No. 3 | <u>\$ 976,005</u> | <u>\$4,006,863</u> |

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

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

NOTE 5 - INTERFUND TRANSACTIONS

The following is a summarized breakdown of the District's operating transfers during fiscal year 2001:

| | <u>Transfers In</u> | <u>Transfers Out</u> |
|-----------------------------|---------------------|----------------------|
| General Fund | \$- - - | \$41,000 |
| <u>Special Revenue Fund</u> | | |
| Public School Fund | 500 | - - - |
| <u>Enterprise Fund</u> | | |
| Food Service | <u>40,500</u> | <u>- - -</u> |
| Total | <u>\$41,000</u> | <u>\$41,000</u> |

NOTE 6 - PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis. Distributions from the second half of the calendar year occur in a new fiscal year and are intended to finance the operations of that year. Property taxes include amounts levied against all real, public utility and tangible (used in business) property located in the District. Real property taxes and public utility taxes are levied after April 1 on the assessed value listed as of the prior January 1, the lien date. Assessed values are established by State law at 35% of appraised market value.

Public utility property taxes are assessed on tangible personal property, as well as land and improvements. Real property is assessed at 35% of market value and personal property is assessed at 100% of market value except for the personal property of rural electric companies which is assessed 50% of market and railroads which are assessed at 29%.

Tangible personal property taxes attach as a lien and are levied on January 1 of the current year. Tangible personal property assessments are 25% of true value. The assessed value upon which the 2000 taxes were collected was \$45,738,792. Agricultural/Residential and public utility/minerals real estate represented 81.54% or \$37,296,230 of this total, Commercial & Industrial real estate represented 5.84% or \$2,672,150 of this total, public utility tangible represented 4.95% or \$2,263,850 of this total and general tangible property represented 7.67% or \$3,506,562 of this total. The voted general tax rate at the fiscal year ended June 30, 2001 was \$49.31 per \$1,000.00 of assessed valuation for operations and \$2.00 per \$1,000.00 of assessed valuation for permanent improvement.

Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20.

The Trumbull County Treasurer collects property taxes on behalf of the District. The County Auditor periodically remits to the District its portion of the taxes collected. These tax "advances" are based on statutory cash flow collection rates. Final "settlements" are made each February and August.

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

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

NOTE 6 - PROPERTY TAXES - (Continued)

Accrued property taxes receivable represent delinquent taxes outstanding and real property, personal property and public utility taxes which became measurable as of June 30, 2001. Although total property tax collections for the next fiscal year are measurable, they are not (exclusive of advances) intended to finance current year operations. The net receivable (total receivable less amount available intended to finance the current year) is therefore offset by a credit to deferred revenue. A total of \$4,661 was available to the District as an advance and is recorded as revenue.

Taxes available for advance and recognized as revenue but not received by the district prior to June 30, 2001, are reflected as a reservation of fund balance for future appropriations. The District is prohibited, by law, from appropriating this revenue in accordance with ORC Section 5705.35, since an advance of revenue was not requested or received prior to the fiscal year-end.

NOTE 7 - RECEIVABLES

Receivables at June 30, 2001 consisted of current and delinquent real and personal property taxes, accrued interest, and due from other governments. These receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes.

A summary of the principal items of receivables follows:

| | <u>Amounts</u> |
|--------------------------------|----------------|
| <u>General Fund</u> | |
| Taxes - current and delinquent | \$1,142,455 |
| <u>Special Revenue Funds</u> | |
| Taxes - current and delinquent | 311,696 |
| Due from other governments | 4,041 |
| <u>Debt Service Fund</u> | |
| Taxes - current and delinquent | 202,985 |
| <u>Capital Projects Funds</u> | |
| Taxes - current and delinquent | 66,134 |
| Accrued interest | 53,687 |
| Due from other governments | 11,975,443 |

NOTE 8 - FIXED ASSETS

A summary of the changes in the general fixed assets account group during the fiscal year follows:

| | <u>Balance</u> <u>July 1, 2000</u> | <u>Increase</u> | <u>Balance</u> <u>Decrease</u> | <u>June 30, 2001</u> |
|--------------------------|---------------------------------------|-------------------------|-----------------------------------|---------------------------|
| Land/improvements | \$ 371,096 | \$ --- | \$ --- | \$ 371,096 |
| Buildings/improvements | 2,492,641 | --- | --- | 2,492,641 |
| Furniture/equipment | 1,478,866 | 63,027 | --- | 1,541,893 |
| Vehicles | 171,302 | --- | --- | 171,302 |
| Construction in progress | <u>0</u> | <u>667,455</u> | <u>---</u> | <u>667,455</u> |
| Total | <u>\$4,513,905</u> | <u>\$730,482</u> | <u>\$ 0</u> | <u>\$5,244,387</u> |

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

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

NOTE 8 - FIXED ASSETS (Continued)

The construction in progress represents costs incurred by June 30, 2001, for the District's Construction Project described in Note 9.A.

A summary of the proprietary fixed assets at June 30, 2001 follows:

| | |
|--------------------------------|-----------------|
| Furniture and equipment | \$ 74,423 |
| Less: accumulated depreciation | <u>(74,423)</u> |
| Net fixed assets | <u>\$ 0</u> |

NOTE 9 - LONG-TERM OBLIGATIONS

- A. During the fiscal year 2000, the District issued general obligation bonds to provide funds for renovations to the high school and to build a new elementary school (hereafter "Construction Project"). These bonds are general obligations of the District for which the full faith and credit of the District is pledged for repayment. Accordingly, such unmatured obligations of the District are accounted for in the general long-term obligations account group. Payments of principal and interest relating to this bond are recorded as an expenditure in the debt service fund. The source of payment is derived from a current 3.9 mill bonded debt tax levy.

These bonds represent the amount of the Construction Project that the District itself was required to finance, in accordance with the terms of a facilities grant from the Ohio School Facilities Commission (OSFC). OSFC will make quarterly disbursements to the District as the project is completed. As of June 30, 2001, the total estimated cost of the Construction Project is \$16,698,182, of which OSFC will pay \$14,694,182.

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

This issue is comprised of both current interest bonds, par value \$2,000,000, and capital appreciation bonds, par value \$170,000. The interest rates on the current interest bonds range from 4.80% to 6.00%. The capital appreciation bonds mature on December 1, 2010 (effective yield to maturity of 37.32%) and December 1, 2011 (effective yield to maturity of 37.32%) at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The present value (as of issue date) reported in the general long-term obligations account group at June 30, 2001 was \$4,000. A total of \$5,631 in accreted interest has been included in the general long-term obligations account group at June 30, 2001. The current interest bonds maturing on or after December 1, 2010 are subject to early redemption at the sole option of the District, at the following redemption prices, plus accrued interest:

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

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

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

NOTE 9 - LONG-TERM OBLIGATIONS - (Continued)

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

The following is a schedule of activity for fiscal 2001 on the 2000 series general obligation bonds:

| | <u>Balance</u> <u>July 1, 2000</u> | <u>Additions</u> | <u>Balance</u> <u>Reductions</u> | <u>June 30, 2001</u> |
|----------------------------|---------------------------------------|------------------|-------------------------------------|----------------------|
| Current interest bonds | \$2,000,000 | \$ - - - | \$(105,000) | \$1,895,000 |
| Capital appreciation bonds | <u>7,999</u> | <u>1,632</u> | <u>- - -</u> | <u>9,631</u> |
| Total G.O. bonds | <u>\$2,007,999</u> | <u>\$1,632</u> | <u>\$(105,000)</u> | <u>\$1,904,631</u> |

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

| <u>Fiscal</u> <u>Year Ending</u> | <u>Current Interest Bonds</u> | | | <u>Capital Appreciation Bonds</u> | | |
|-------------------------------------|-------------------------------|--------------------|--------------------|-----------------------------------|-----------------|------------------|
| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
| 2002 | \$55,000 | \$109,300 | \$164,300 | \$ - - - | \$ - - - | \$ - - - |
| 2003 | 55,000 | 106,550 | 161,550 | - - - | - - - | - - - |
| 2004 | 60,000 | 103,773 | 163,773 | - - - | - - - | - - - |
| 2005 | 65,000 | 100,713 | 165,713 | - - - | - - - | - - - |
| 2006 | 65,000 | 97,333 | 162,333 | - - - | - - - | - - - |
| 2007 - 2011 | 305,000 | 429,490 | 734,490 | 85,000 | - - - | 85,000 |
| 2012 - 2016 | 375,000 | 355,200 | 730,200 | 85,000 | - - - | 85,000 |
| 2017 - 2021 | 615,000 | 205,200 | 820,200 | - - - | - - - | - - - |
| 2022 - 2023 | <u>300,000</u> | <u>27,300</u> | <u>327,300</u> | <u>- - -</u> | <u>- - -</u> | <u>- - -</u> |
| Total | <u>\$1,895,000</u> | <u>\$1,534,859</u> | <u>\$3,429,859</u> | <u>\$170,000</u> | <u>\$ 0</u> | <u>\$170,000</u> |

B. The District issued energy conservation notes to provide for energy improvements to various District buildings. The primary source of repayment of this note is through energy savings as a result of the improvements.

Payments of principal and interest relating to this liability are recorded as expenditures in the debt service fund. The unmatured obligations at year-end are accounted for in the general long-term obligations account group.

The following is a description of the District's notes outstanding as of June 30, 2001:

| | <u>Interest</u> <u>Rate</u> | <u>Issue</u> <u>Date</u> | <u>Maturity</u> <u>Date</u> | <u>Outstanding</u> <u>July 1, 2000</u> | <u>Retired</u> <u>in 2001</u> | <u>Outstanding</u> <u>June 30, 2001</u> |
|--------------------------------|--------------------------------|-----------------------------|--------------------------------|---|----------------------------------|--|
| Energy Conservation Note | 5.10% | 08/20/96 | 08/20/01 | <u>\$61,365</u> | <u>\$(39,527)</u> | <u>\$21,838</u> |

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

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

NOTE 9 - LONG-TERM OBLIGATIONS - (Continued)

The following is a summary of the District's future annual debt service requirements to maturity for the energy conservation notes:

| <u>Fiscal Year Ending</u> | <u>Principal on Notes</u> | <u>Interest on Notes</u> | <u>Total</u> |
|-------------------------------|-------------------------------|------------------------------|-----------------|
| 2002 | <u>\$21,838</u> | <u>\$985</u> | <u>\$22,823</u> |

- C. On February 8, 1999, the District issued \$2,004,000 in bond anticipation notes to begin the Construction Project under the terms outlined by the OSFC. These notes bore an annual interest rate of 4.66% and matured on August 8, 2000. The bond anticipation notes were retired using proceeds from the Districts \$2,004,000 general obligation bond issue described in Note 9.A. In accordance with FASB Statement No. 6, "Classification of Short-Term Obligations Expected to Be Refinanced," the bond anticipation notes were considered long-term obligations because they have been replaced with long-term bonds before the financial statements have been issued. A summary of bond anticipation note transactions for the year ended June 30, 2001 follows:

| | <u>Principal Outstanding June 30, 2000</u> | <u>Additions</u> | <u>Reductions</u> | <u>Principal Outstanding June 30, 2001</u> |
|-------------------------------|--|------------------|----------------------|--|
| <u>Capital Projects Funds</u> | | | | |
| Bond Anticipation Notes 4.66% | <u>\$2,004,000</u> | <u>\$ - - -</u> | <u>\$(2,004,000)</u> | <u>\$ - - -</u> |

- D. During the year ended June 30, 2001, the following changes occurred in the liabilities reported in the general long-term obligations account group. Compensated absences are presented net of actual increases and decreases because of the practicality of determining these values. Compensated absences and pension obligations will be paid from the fund in which the employee was paid.

| | <u>Balance July 1, 2000</u> | <u>Increase</u> | <u>Decrease</u> | <u>Balance June 30, 2001</u> |
|-----------------------------------|---------------------------------|-----------------|----------------------|----------------------------------|
| General obligation bonds | \$2,007,999 | \$ 1,632 | \$ (105,000) | \$1,904,631 |
| Bond anticipation note payable | 2,004,000 | - - - | (2,004,000) | - - - |
| Energy conservation notes payable | 61,365 | - - - | (39,527) | 21,838 |
| Compensated absences | 412,146 | - - - | (64,481) | 347,665 |
| Pension obligation payable | <u>21,702</u> | <u>21,485</u> | <u>(21,702)</u> | <u>21,485</u> |
| Total | <u>\$4,507,212</u> | <u>\$23,117</u> | <u>\$(2,234,710)</u> | <u>\$2,295,619</u> |

E. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The effects of these debt limitations at June 30, 2001 are a voted debt margin of \$2,228,006 (which includes \$16,146 of debt service fund equity) and an unvoted debt margin of \$45,739.

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

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

NOTE 10 - RISK MANAGEMENT

A. Comprehensive

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

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

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

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

Settled claims have not exceeded commercial coverage in any of the past three years. There has been no significant reduction in coverage from fiscal year 2000.

B. Health Self Insurance

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

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

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

C. Workers' Compensation

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

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

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

NOTE 10 - RISK MANAGEMENT - (Continued)

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

NOTE 11 - SEGMENT INFORMATION - ENTERPRISE FUND

The District maintains one enterprise fund which provides lunchroom/cafeteria services, therefore segment information for the year ended June 30, 2001 is not presented in these notes. The enterprise fund had no encumbrances outstanding at June 30, 2001.

NOTE 12 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan administered by the School Employees Retirement Board. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 45 North Fourth Street, Columbus, Ohio 43215-3634, or by calling (614) 222-5853.

Plan members are required to contribute 9 percent of their annual covered salary and the District is required to contribute 14 percent for 2001; 4.2 percent was the portion to fund pension obligations. The contribution rates are not determined actuarially, but are established by the School Employees Retirement Board within the rates allowed by State statute. The adequacy of the contribution rates is determined annually. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2001, 2000, and 1999 were \$61,863, \$73,040, and \$59,210, respectively; 50.45 percent has been contributed for fiscal year 2001 and 100 percent for the fiscal years 2000 and 1999. \$30,647, representing the unpaid contribution for fiscal year 2001, is recorded as a liability within the respective funds and the general long-term obligations account group.

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

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

B. State Teachers Retirement System

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771, or by calling (614) 227-4090.

Plan members are required to contribute 9.3 percent of their annual covered salary and the District is required to contribute 14 percent; 9.5 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2001, 2000, and 1999 were \$344,840, \$333,355, and \$324,231, respectively; 83.56 percent has been contributed for fiscal year 2001 and 100 percent for the fiscal years 2000 and 1999. \$56,696, representing the unpaid contribution for fiscal year 2001, is recorded as a liability within the respective funds.

NOTE 13 - POSTEMPLOYMENT BENEFITS

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

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For this fiscal year, the Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$110,842 during fiscal 2001.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Health Care Reserve Fund was \$3.419 billion at June 30, 2000 (the latest information available). For the year ended June 30, 2000 (the latest information available), net health care costs paid by STRS were \$283.137 million and STRS had 99,011 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

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

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

NOTE 13 - POSTEMPLOYMENT BENEFITS - (Continued)

For this fiscal year, employer contributions to fund health care benefits were 9.8 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2001, the minimum pay has been established at \$12,400. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2000 (the latest information available), were \$140.7 million and the target level was \$211.0 million. At June 30, 2000 (the latest information available), SERS had net assets available for payment of health care benefits of \$252.3 million and SERS had approximately 50,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$45,876 during the 2001 fiscal year.

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING

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

The Combined Statement of Revenue, Expenditures, and Changes in Fund Balances - Budget and Actual - All Governmental Fund Types is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, encumbrances are recorded as the equivalent of an expenditure (budget basis) as opposed to a reservation of fund balance for governmental funds (GAAP basis); and
- (d) Intrafund transfers have been presented as other financing sources (uses) on a budget basis. Intrafund transfers have been eliminated for GAAP basis reporting purposes.

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

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the governmental funds are as follows:

**Excess of Revenues and Other Financing
Sources Over/(Under) Expenditures and Other
Financing Uses**

| | Governmental Fund Types | | | |
|--|-------------------------|----------------------------|-------------------------|-----------------------------|
| | <u>General</u> | <u>Special Revenue</u> | <u>Debt Service</u> | <u>Capital Projects</u> |
| Budget basis | \$(110,746) | \$(42,273) | \$(2,107,635) | \$2,010,656 |
| Net adjustment for revenue accruals | 7,505 | 4,041 | --- | 53,687 |
| Net adjustment for expenditure accruals | (186,361) | 11,535 | --- | (13,469) |
| Net adjustment for other financing sources (uses) | 27,705 | --- | --- | --- |
| Encumbrances (budget basis) | <u>4,276</u> | <u>12,122</u> | <u>---</u> | <u>227,668</u> |
| GAAP basis | <u>\$(257,621)</u> | <u>\$(14,575)</u> | <u>\$(2,107,635)</u> | <u>\$2,278,542</u> |

NOTE 15 - CONTINGENCIES

A. Grants

The District receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the District at June 30, 2001.

B. Litigation

The District is not involved in litigation as either plaintiff or defendant.

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

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

NOTE 15 - CONTINGENCIES (Continued)

C. State School Funding Decision

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

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

NOTE 16 - STATUTORY RESERVES

The District is required by State law to set-aside certain general fund revenue amounts, as defined by Statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2001, the reserve activity was as follows:

| | <u>Textbooks</u> | <u>Capital Acquisition</u> | <u>Budget Stabilization</u> |
|---|---------------------------|--------------------------------|---------------------------------|
| Set-aside cash balance as of June 30, 2000 | \$ (9,630) | \$ 36,067 | \$ 32,833 |
| Current year set-aside requirement | 106,826 | 106,826 | --- |
| Elimination of budget stabilization reserve | --- | --- | (32,833) |
| Current Year Offsets | --- | (54,631) | --- |
| Qualifying disbursements | <u>(132,210)</u> | <u>(54,491)</u> | <u>---</u> |
| Total | <u>\$ (35,014)</u> | <u>\$ 33,771</u> | <u>\$ 0</u> |
| Cash balance carried forward to FY 2002 | <u>\$ (35,014)</u> | <u>\$ 33,771</u> | <u>\$ 0</u> |

Effective April 10, 2001, Am. Sub. Senate Bill 345 amended ORC Section 5705.29 effectively eliminating the requirement for the District to establish and maintain a budget stabilization reserve. By June 30, 2001, the School Board had not taken action to move these funds into the general fund. Monies representing BWC refunds that were received prior to April 10, 2001, have been shown as a restricted asset and reserved fund balance in the general fund since allowable expenditures are restricted by State statute. All remaining monies previously reported in the budget stabilization reserve are now reported as unreserved and undesignated fund balance in the general fund. The District is still required by state law to maintain the textbook reserve and capital acquisition reserve.

The District had qualifying disbursements during the year that reduced the set-aside amounts below zero in the textbooks reserve, the extra amounts may be used to reduce the set-aside requirements of future years.

A schedule of the restricted assets at June 30, 2001 follows:

| | |
|---|------------------------|
| Amount restricted for BWC refunds | \$23,988 |
| Amount restricted for capital acquisition | <u>33,771</u> |
| Total restricted assets | <u>\$57,759</u> |

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

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

NOTE 17 - EARLY RETIREMENT INCENTIVE PLAN

The District instituted an early retirement incentive plan (ERIP) during fiscal year 1999 for certified employees. The program will run from fiscal year 1999 to fiscal year 2002. The ERIP will pay participants between \$5,000 and \$20,000 upon retirement. The cash payment will be made in two equal installments during July of the next two succeeding fiscal years. This incentive is in addition to the employee's normal severance. Several employees took advantage of the ERIP in fiscal 2001; however, the payments were not made prior to June 30, 2001. A liability for the ERIP payments has been recorded as a fund liability in the general fund and as a component of compensated absences payable in the general long-term obligations account group.

NOTE 18 - CONTRACTUAL COMMITMENTS

As of June 30, 2001, the District had the following contractual commitments outstanding related to the Construction Project described in Note 9.A. A summary of the primary contractual commitment entered into prior to June 30, 2001 follows:

| <u>Vendor</u> | <u>Type of Services</u> | <u>Total Contract</u> | <u>Amount Paid</u> | <u>Remaining Commitment at June 30, 2001</u> |
|----------------------|-------------------------|-----------------------|------------------------|--|
| Riciutti Balog | Architect | \$438,889 | \$251,751 | \$187,138 |
| MS Consultants, Inc. | Architect | 494,697 | 249,397 | 245,300 |

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STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

Voinovich Government Center
242 Federal Plaza West
Suite 302
Youngstown, Ohio 44503
Telephone 330-797-9900
800-443-9271
Facsimile 330-797-9949
www.auditor.state.oh.us

**REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE AND ON
INTERNAL CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

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

To the Board of Education:

We have audited the financial statements of McDonald Local School District, as of and for the year ended June 30, 2001, and have issued our report thereon dated December 20, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether McDonald Local School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the District in a separate letter dated December 20, 2002.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered McDonald Local School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated December 20, 2002.

McDonald Local School District
Trumbull County
Report of Independent Accountants on Compliance and on
Internal Control Required by *Government Auditing Standards*
Page 2

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

A handwritten signature in black ink, appearing to read "Jim Petro". The signature is fluid and cursive, with a large loop at the end of the last name.

Jim Petro
Auditor of State

December 20, 2002



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490

MCDONALD LOCAL SCHOOL DISTRICT

TRUMBULL COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JANUARY 30, 2003**