



**Auditor of State
Betty Montgomery**

**MCDONALD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of McDonald Local School District, Trumbull County, Ohio (the District), as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2004, and the respective changes in financial position and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended June 30, 2004, the District implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 31, 2005, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should be read in conjunction with this report in assessing the results of our audit.

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

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

Betty Montgomery
Auditor of State

May 31, 2005

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED**

The discussion and analysis of the McDonald Local School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2004 are as follows:

- In total, net assets of governmental activities decreased \$601,491 which represents a 3.68% decrease from 2003.
- General revenues accounted for \$5,221,145 in revenue or 83.81% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$1,008,622 or 16.19% of total revenues of \$6,229,767.
- The District had \$6,831,258 in expenses related to governmental activities; \$1,008,622 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$5,221,145 were not adequate to provide for these programs.
- The District's major governmental funds are the general fund and classroom facilities fund. The general fund had \$5,352,135 in revenues and other financing sources and \$5,243,706 in expenditures and other financing uses. During fiscal year 2004, the general fund's fund deficit decreased \$108,429 from \$655,147 to \$546,718.
- The District's classroom facilities fund had \$61,968 in revenues and \$631,449 in expenditures. During fiscal year 2004, the classroom facilities fund's fund balance decreased \$569,481 from \$879,732 to \$310,251.

Using these Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds with all other nonmajor funds presented in total in one column. In the case of the District, the general fund and classroom facilities fund are by far the most significant funds, and the only governmental funds reported as major funds.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2004?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the District's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the District as a whole, the *financial position* of the District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

In the Statement of Net Assets and the Statement of Activities, the Governmental Activities include the District's programs and services, including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities, and food service operations.

The District's statement of net assets and statement of activities can be found on pages 13-14 of this report.

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major governmental funds begins on page 9. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's major governmental funds are the general fund and classroom facilities fund.

Governmental Funds

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* than can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 15-19 of this report.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private-purpose trust fund. The District also acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 20 and 21. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 22-48 of this report.

The District as a Whole

Recall that the Statement of Net Assets provides the perspective of the District as a whole. This is the first year for government-wide financial statements using the full accrual basis of accounting; therefore a comparison with prior years is not available. A comparative analysis will be provided in future years when prior year information is available.

The table below provides a summary of the District's net assets for 2004.

	Net Assets
	Governmental Activities <u>2004</u>
<u>Assets</u>	
Current and other assets	\$ 2,088,179
Capital assets	<u>18,404,845</u>
Total assets	<u>20,493,024</u>
<u>Liabilities</u>	
Current liabilities	2,201,054
Long-term liabilities	<u>2,536,146</u>
Total liabilities	<u>4,737,200</u>
<u>Net Assets</u>	
Invested in capital assets, net of related debt	16,261,357
Restricted	353,554
Unrestricted (deficit)	<u>(859,087)</u>
Total net assets	<u>\$ 15,755,824</u>

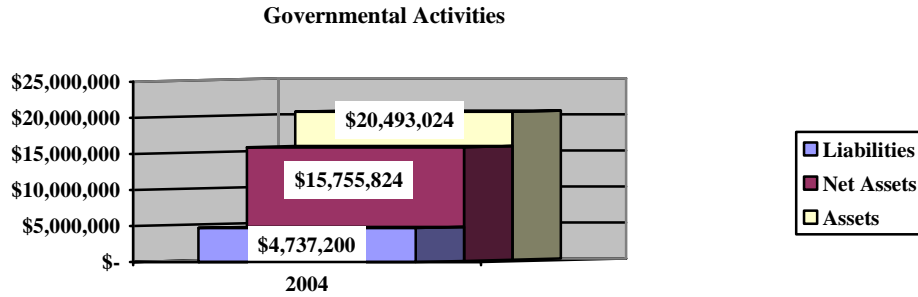
Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2004, the District's assets exceeded liabilities by \$15,755,824. Of this total, \$353,554 is restricted in use.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED**

At year-end, capital assets represented 89.81% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2004, were \$16,261,357. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$353,554, represents resources that are subject to external restriction on how they may be used. The remaining deficit of unrestricted net assets of \$859,087 may be used to meet the District's ongoing obligations to the students and creditors.



The table below shows the change in net assets for fiscal year 2004. Since this is the first year the District has prepared government-wide financial statements using the full accrual basis of accounting, revenue and expense comparisons to fiscal year 2003 are not available. A comparative analysis will be provided in future years when prior year information is available.

Change in Net Assets

	Governmental Activities <u>2004</u>
<u>Revenues</u>	
Program revenues:	
Charges for services and sales	\$ 655,231
Operating grants and contributions	248,593
Capital grants and contributions	104,798
General revenues:	
Property taxes	1,449,184
Grants and entitlements	3,726,119
Investment earnings	10,713
Other	<u>35,129</u>
 Total revenues	 <u>6,229,767</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

Change in Net Assets

	Governmental Activities <u>2004</u>
<u>Expenses</u>	
Program expenses:	
Instruction:	
Regular	\$ 4,221,578
Special	509,795
Vocational	45,597
Support services:	
Pupil	196,395
Instructional staff	80,929
Board of education	38,906
Administration	422,768
Fiscal	142,086
Operations and maintenance	643,670
Pupil transportation	87,041
Central	2,332
Food service operations	126,173
Extracurricular activities	187,773
Interest and fiscal charges	<u>126,215</u>
Total expenses	<u>6,831,258</u>
Change in net assets	(601,491)
Net assets at beginning of year	<u>16,357,315</u>
Net assets at end of year	<u>\$ 15,755,824</u>

Governmental Activities

Net assets of the District's governmental activities decreased \$601,491. Total governmental expenses of \$6,831,258 were offset by program revenues of \$1,008,622 and general revenues of \$5,221,145. Program revenues supported 14.76% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes, and grants and entitlements. These revenue sources represent 83.07% of total governmental revenue.

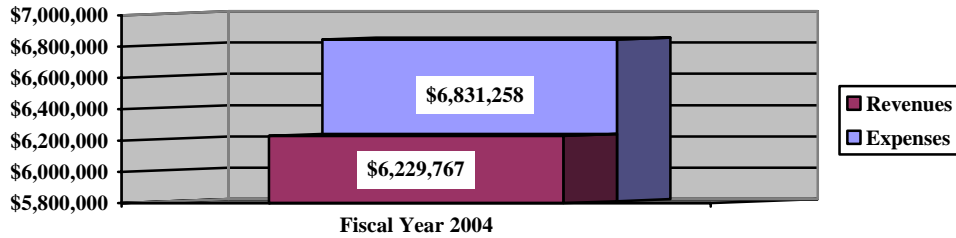
The largest expense of the District is for instructional programs. Instruction expenses totaled \$4,776,970 or 69.93% of total governmental expenses for fiscal 2004.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED**

The graph below presents the District's governmental activities revenue and expenses for fiscal year 2004.

Governmental Activities - Revenues and Expenses



The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements. Comparisons to 2003 have not been presented since they are not available.

Governmental Activities

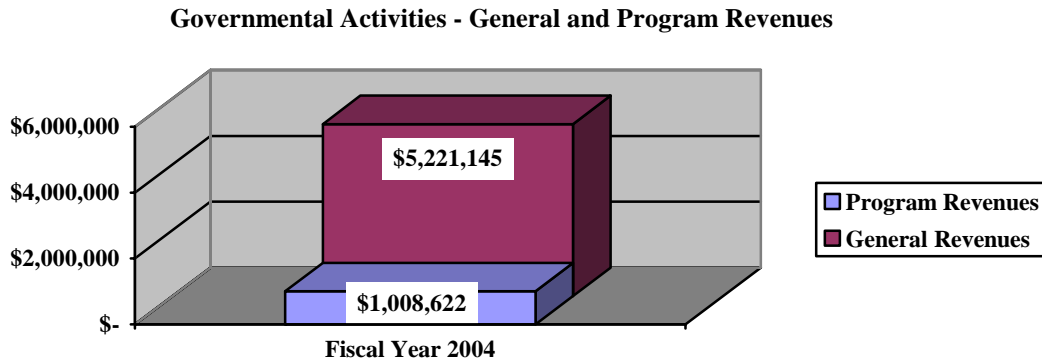
	Total Cost of Services 2004	Net Cost of Services 2004
Program expenses		
Instruction:		
Regular	\$ 4,221,578	\$ 3,637,165
Special	509,795	373,981
Vocational	45,597	45,597
Support services:		
Pupil	196,395	194,056
Instructional staff	80,929	80,929
Board of education	38,906	38,906
Administration	422,768	394,170
Fiscal	142,086	141,916
Operations and maintenance	643,670	554,677
Pupil transportation	87,041	87,041
Central	2,332	2,332
Food service operations	126,173	33,062
Extracurricular activities	187,773	112,589
Interest and fiscal charges	126,215	126,215
Total expenses	\$ 6,831,258	\$ 5,822,636

The dependence upon tax and other general revenues for governmental activities is apparent, 84.92% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 85.24%. The District's taxpayers, as a whole, are by far the primary support for District's students.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

The graph below presents the District's governmental activities revenue for fiscal year 2004.



The District's Funds

The District's governmental funds reported a combined fund deficit balance of \$220,511, which is lower than last year's fund balance of \$318,835. The June 30, 2003 fund balances have been restated as described in Note 3.A. to the basic financial statements. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2004 and 2003.

	Fund Balance <u>June 30, 2004</u>	Fund Balance <u>June 30, 2003</u>	Increase <u>(Decrease)</u>	Percentage <u>Change</u>
General	\$ (546,718)	\$ (655,147)	\$ 108,429	16.55 %
Classroom Facilities	310,251	879,732	(569,481)	(64.73) %
Other Governmental	<u>15,956</u>	<u>94,250</u>	<u>(78,294)</u>	(83.07) %
Total	<u>\$ (220,511)</u>	<u>\$ 318,835</u>	<u>\$ (539,346)</u>	(169.16) %

General Fund

The District's general fund deficit balance decreased \$108,429 (after a restatement to the June 30, 2003, fund balance which is detailed in Note 3.A. to the basic financial statements). The decrease in fund deficit can be attributed to several items related to increasing revenues and increased expenditures. Revenues exceed expenditures for fiscal year 2004 by \$31,749. On March 3, 2004 the Governor of the State of Ohio issued an executive order to reduce funding to school districts to help offset the state's fiscal year deficit. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

	<u>2004</u> <u>Amount</u>	<u>2003</u> <u>Amount</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>				
Taxes	\$ 1,046,401	\$ 1,020,312	\$ 26,089	2.56 %
Tuition	459,680	-	459,680	100.00 %
Earnings on investments	5,277	12,111	(6,834)	(56.43) %
Intergovernmental	3,706,338	3,633,708	72,630	2.00 %
Other revenues	<u>43,096</u>	<u>31,619</u>	<u>11,477</u>	36.30 %
Total	<u>\$ 5,260,792</u>	<u>\$ 4,697,750</u>	<u>\$ 563,042</u>	11.99 %
<u>Expenditures</u>				
Instruction	\$ 3,367,360	\$ 3,070,066	\$ 297,294	9.68 %
Support services	1,537,123	1,489,515	47,608	3.20 %
Extracurricular activities	141,415	139,329	2,086	1.50 %
Capital outlay	91,343	-	91,343	100.00 %
Debt service	<u>91,802</u>	<u>-</u>	<u>91,802</u>	100.00 %
Total	<u>\$ 5,229,043</u>	<u>\$ 4,698,910</u>	<u>\$ 530,133</u>	11.28 %

Classroom Facilities Fund

The District's classroom facilities fund had \$61,968 in revenues and \$631,449 in expenditures. During fiscal year 2004, the classroom facilities fund's fund balance decreased \$569,481 from \$879,732 to \$310,251.

General Fund Budgeting Highlights

The District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the general fund.

During the course of fiscal 2004, the District amended its general fund budget several times. For the general fund, original budgeted revenues and other financing sources were \$5,305,757 and final budgeted revenues and other financing sources were \$5,248,422. Actual revenues and other financing sources for fiscal 2004 was \$5,250,160. This represents a \$1,738 increase over final budgeted revenues.

General fund original appropriations (appropriated expenditures including other financing uses) of \$5,232,429 were increased to \$5,290,659 in the final appropriations. The actual budget basis expenditures for fiscal year 2004 totaled \$5,290,042, which was \$617 less than the final budget appropriations.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2004, the District had \$18,404,845 invested in land, land improvements, buildings and improvements, furniture and equipment and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal 2004 balances compared to 2003:

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

	Governmental Activities	
	2004	2003
Land	\$ 311,600	\$ 311,600
Land improvements	453,349	478,022
Building and improvements	17,297,419	681,939
Furniture and equipment	308,877	255,065
Vehicles	33,600	41,067
Construction in progress	-	16,611,133
Total	<u>\$ 18,404,845</u>	<u>\$ 18,378,826</u>

The overall increase in capital assets of \$26,019 is due to capital outlays of \$1,568,838 exceeding depreciation expense of \$1,542,819 in the fiscal year.

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

Debt Administration

At June 30, 2004, the District had \$1,744,720 in general obligation bonds outstanding. Of this total, \$65,000 is due within one year and \$1,679,720 is due within greater than one year. The following table summarizes the bonds and loans outstanding.

Outstanding Debt, at Year End

	Governmental Activities	Governmental Activities
	2004	2003
General obligation bonds	<u>\$ 1,744,720</u>	<u>\$ 1,800,164</u>
Total	<u>\$ 1,744,720</u>	<u>\$ 1,800,164</u>

At June 30, 2004, the District's overall legal debt margin was \$2,903,628, and an unvoted debt margin of \$51,228.

See Note 10 to the basic financial statements for additional information on the District's debt administration.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED**

Current Financial Related Activities

The District has one of the smallest tax bases of all the school districts in Ohio. Our small size means that over 75% of our revenue comes from the State Foundation's program. This Foundation program is unconstitutional and grossly under funded. The District has also experienced declining enrollment over the past five years, further lowering state support. Also, during this five-year period, the District completed a \$20,000,000 Ohio School Facilities Commission project. Although the state paid 88%, related costs not covered by the grant were absorbed by the District's general fund and erased all our reserves. In fact, the District had to float a tax anticipation note for \$200,000 in June 2003 from our emergency levy renewal to remain solvent. However, the District has met these challenges and I can report that the District is financially stable.

The District met these challenges by implementing an open enrollment policy allowing students from all other school districts to attend McDonald Local Schools, effective September 2003. Under this policy, all state funding follows the student to the District. With 90 open enrollment students in 2003-2004 and 120 open enrollment students in 2004-2005, we have successfully filled our revenue shortfalls. These new students were served by existing staff members, so there was little or no additional cost associated with attendance. With the fact that, because of limited space, we had to deny applications for over 150 students last year, we anticipate this revenue stream will be strong for the foreseeable future.

The biggest challenge the District faces in the future is the continuing saga with state school funding. As the state continues to give insufficient funding to its school districts, its solutions to the problem only seem to make the problem worse. Our personal property tax base is under attack by the governor and state legislature. A larger percentage of an already inadequate state funding level is being taken from public schools and given to charter schools. Unfortunately, as we wait for a solution to these problems, we must continue to prepare for further such erosions of our state revenue base.

McDonald has, in the past, and will in the future, met these challenges. Although our small size can be seen as a weakness, we have the total support of our community. We have only failed one levy in the District's 86-year history and have not asked for a new operating levy in eight years. Although challenges exist, the future is stable for McDonald Local Schools.

Contacting the District's Financial Management

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

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

STATEMENT OF NET ASSETS
JUNE 30, 2004

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents. . .	\$ 429,375
Receivables:	
Taxes	1,631,224
Intergovernmental	27,456
Materials and supplies inventory	124
Capital assets:	
Land	311,600
Depreciable capital assets, net	18,093,245
Capital assets, net.	18,404,845
 Total assets.	 20,493,024
Liabilities:	
Accounts payable.	30,248
Contracts payable.	52,534
Accrued wages and benefits	501,450
Pension obligation payable.	113,275
Intergovernmental payable	6,828
Deferred revenue	1,487,802
Accrued interest payable	8,917
Long-term liabilities:	
Due within one year.	178,702
Due within more than one year	2,357,444
Total liabilities	4,737,200
Net Assets:	
Invested in capital assets, net of related debt.	16,261,357
Restricted for:	
Capital projects	300,338
Debt service.	53,216
Unrestricted (deficit)	(859,087)
Total net assets	\$ 15,755,824

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Governmental activities:				
Instruction:				
Regular	\$ 4,221,578	\$ 504,523	\$ 61,190	\$ 18,700
Special	509,795	-	135,814	-
Vocational	45,597	-	-	-
Support services:				
Pupil	196,395	-	2,339	-
Instructional staff	80,929	-	-	-
Board of education	38,906	-	-	-
Administration	422,768	23,598	5,000	-
Fiscal	142,086	-	170	-
Operations and maintenance	643,670	-	2,895	86,098
Pupil transportation	87,041	-	-	-
Central	2,332	-	-	-
Food service operations	126,173	51,926	41,185	-
Extracurricular activities	187,773	75,184	-	-
Interest and fiscal charges	126,215	-	-	-
Total governmental activities	<u>\$ 6,831,258</u>	<u>\$ 655,231</u>	<u>\$ 248,593</u>	<u>\$ 104,798</u>

General Revenues:

Property taxes levied for:
General purposes
Special revenue
Debt service
Capital projects
Grants and entitlements not restricted to specific programs
Investment earnings
Miscellaneous
 Total general revenues
 Change in net assets
 Net assets at beginning of year
 Net assets at end of year

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**Net (Expense)
Revenue and
Changes in
Net Assets**

**Governmental
Activities**

\$	(3,637,165)
	(373,981)
	(45,597)
	(194,056)
	(80,929)
	(38,906)
	(394,170)
	(141,916)
	(554,677)
	(87,041)
	(2,332)
	(33,062)
	(112,589)
	(126,215)
	<hr/>
	(5,822,636)
	<hr/>
	1,038,314
	212,007
	144,782
	54,081
	3,726,119
	10,713
	35,129
	<hr/>
	5,221,145
	<hr/>
	(601,491)
	<hr/>
	16,357,315
	<hr/>
\$	<u>15,755,824</u>

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004

	<u>General</u>	<u>Classroom Facilities</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in pooled cash and cash equivalents	\$ 5,738	\$ 362,793	\$ 59,853	\$ 428,384
Receivables:				
Taxes	1,168,878	-	462,346	1,631,224
Intergovernmental	-	-	27,456	27,456
Due from other funds	1	22,367	-	22,368
Materials and supplies inventory	-	-	124	124
Restricted assets:				
Equity in pooled cash and cash equivalents	991	-	-	991
Total assets	<u>\$ 1,175,608</u>	<u>\$ 385,160</u>	<u>\$ 549,779</u>	<u>\$ 2,110,547</u>
Liabilities:				
Accounts payable	\$ 2,171	\$ 22,375	\$ 5,702	\$ 30,248
Contracts payable	-	52,534	-	52,534
Accrued wages and benefits	487,164	-	14,286	501,450
Pension obligation payable	76,848	-	1,536	78,384
Intergovernmental payable	6,699	-	129	6,828
Due to other funds	-	-	22,368	22,368
Deferred revenue	1,149,444	-	489,802	1,639,246
Total liabilities	<u>1,722,326</u>	<u>74,909</u>	<u>533,823</u>	<u>2,331,058</u>
Fund Balances:				
Reserved for encumbrances	1,982	277,994	852	280,828
Reserved for materials and supplies inventory	-	-	124	124
Reserved for debt service	-	-	37,802	37,802
Reserved for property tax unavailable for appropriation	19,434	-	-	19,434
Reserved for school bus purchases	991	-	-	991
Unreserved, undesignated (deficit), reported in:				
General fund	(569,125)	-	-	(569,125)
Special revenue funds	-	-	(7,047)	(7,047)
Capital projects funds	-	32,257	(15,775)	16,482
Total fund balances	<u>(546,718)</u>	<u>310,251</u>	<u>15,956</u>	<u>(220,511)</u>
Total liabilities and fund balances	<u>\$ 1,175,608</u>	<u>\$ 385,160</u>	<u>\$ 549,779</u>	<u>\$ 2,110,547</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2004

Total governmental fund balances		\$ (220,511)
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		18,404,845
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Taxes	\$ 151,444	
Total		151,444
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
Compensated absences	376,938	
Pension obligation payable	34,891	
Lease purchase agreement #1	323,145	
Lease purchase agreement #2	91,343	
General obligation bonds payable	1,744,720	
Accrued interest payable	8,917	
Total		(2,579,954)
Net assets of governmental activities		\$ 15,755,824

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<u>General</u>	<u>Classroom Facilities</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
From local sources:				
Taxes	\$ 1,046,401	\$ -	\$ 412,881	\$ 1,459,282
Tuition.	459,680	-	-	459,680
Earnings on investments.	5,277	5,436	-	10,713
Charges for services.	-	-	51,926	51,926
Extracurricular.	-	-	98,782	98,782
Classroom materials and fees	14,332	-	-	14,332
Other local revenues.	28,764	-	36,876	65,640
Intergovernmental - State.	3,706,338	56,532	77,609	3,840,479
Intergovernmental - Federal	-	-	295,563	295,563
Total revenue	<u>5,260,792</u>	<u>61,968</u>	<u>973,637</u>	<u>6,296,397</u>
Expenditures:				
Current:				
Instruction:				
Regular	2,989,781	-	131,346	3,121,127
Special.	324,289	-	271,730	596,019
Vocational.	53,290	-	69	53,359
Support services:				
Pupil.	187,786	-	40,429	228,215
Instructional staff	94,667	-	-	94,667
Board of education	41,656	-	-	41,656
Administration.	465,923	-	35,146	501,069
Fiscal	157,943	-	4,193	162,136
Operations and maintenance.	498,373	22,375	232,013	752,761
Pupil transportation	90,775	-	-	90,775
Food service operations	-	-	109,248	109,248
Extracurricular activities.	141,415	-	77,741	219,156
Facilities acquisition and construction . . .	-	609,074	-	609,074
Capital outlay	91,343	-	-	91,343
Debt service:				
Principal retirement	74,385	-	60,000	134,385
Interest and fiscal charges	17,417	-	104,679	122,096
Total expenditures	<u>5,229,043</u>	<u>631,449</u>	<u>1,066,594</u>	<u>6,927,086</u>
Excess of revenues over (under) expenditures.	<u>31,749</u>	<u>(569,481)</u>	<u>(92,957)</u>	<u>(630,689)</u>
Other financing sources (uses):				
Transfers in	-	-	14,663	14,663
Transfers (out).	(14,663)	-	-	(14,663)
Proceeds from lease purchase agreement . .	91,343	-	-	91,343
Total other financing sources (uses)	<u>76,680</u>	<u>-</u>	<u>14,663</u>	<u>91,343</u>
Net change in fund balances	108,429	(569,481)	(78,294)	(539,346)
Fund balances (deficit) at beginning of year (restated)	<u>(655,147)</u>	<u>879,732</u>	<u>94,250</u>	<u>318,835</u>
Fund balances (deficit) at end of year . . .	<u>\$ (546,718)</u>	<u>\$ 310,251</u>	<u>\$ 15,956</u>	<u>\$ (220,511)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

Net change in fund balances - total governmental funds	\$	(539,346)
 <i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeds depreciation expense in the current period.		26,019
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(66,630)
Repayment of bond and lease purchase principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets.		134,385
Proceeds of lease purchase transactions are recorded as revenue in the funds, however on the statement of activities, they are not reported as revenues as they increase the liabilities on the statement of net assets.		(91,343)
Governmental funds report expenditures for interest when it is due. In the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported in the statement of activities is due to the accrued interest on bonds and additional accumulated accreted interest on the capital appreciation bonds.		(4,119)
Some expenses reported in the statement of activities, such as compensated absences and pension obligations, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		(60,457)
Change in net assets of governmental activities	\$	(601,491)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
From local sources:				
Taxes	\$ 1,046,737	\$ 1,035,426	\$ 1,035,769	\$ 343
Tuition.	464,548	459,528	459,680	152
Earnings on investments.	5,333	5,275	5,277	2
Classroom materials and fees	14,484	14,327	14,332	5
Other local revenues	4,431	4,383	4,384	1
Intergovernmental - State	3,745,586	3,705,111	3,706,338	1,227
Total revenue	<u>5,281,119</u>	<u>5,224,050</u>	<u>5,225,780</u>	<u>1,730</u>
Expenditures:				
Current:				
Instruction:				
Regular	3,008,572	2,940,488	2,939,690	798
Special.	400,726	314,586	314,588	(2)
Vocational.	69,319	52,239	52,239	-
Support services:				
Pupil.	131,634	184,287	184,287	-
Instructional staff	85,734	86,452	86,452	-
Board of education	42,063	41,690	41,690	-
Administration.	429,271	463,854	463,854	-
Fiscal	161,700	158,165	158,165	-
Operations and maintenance.	659,311	592,533	592,712	(179)
Pupil transportation	86,329	91,341	91,341	-
Extracurricular activities.	132,770	142,446	142,446	-
Principal retirement.	-	200,000	200,000	-
Interest and fiscal charges.	-	5,490	5,490	-
Total expenditures	<u>5,207,429</u>	<u>5,273,571</u>	<u>5,272,954</u>	<u>617</u>
Excess of revenues over (under) expenditures.	<u>73,690</u>	<u>(49,521)</u>	<u>(47,174)</u>	<u>2,347</u>
Other financing sources (uses):				
Refund of prior year expenditure.	24,638	24,372	24,380	8
Transfers (out)	(25,000)	(17,088)	(17,088)	-
Total other financing sources (uses)	<u>(362)</u>	<u>7,284</u>	<u>7,292</u>	<u>8</u>
Net change in fund balance	73,328	(42,237)	(39,882)	2,355
Fund balance at beginning of year.	41,972	41,972	41,972	-
Prior year encumbrances appropriated	487	487	487	-
Fund balance at end of year	<u>\$ 115,787</u>	<u>\$ 222</u>	<u>\$ 2,577</u>	<u>\$ 2,355</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2004

	Private-Purpose Trust	
	Scholarship	Agency
Assets:		
Equity in pooled cash and cash equivalents	\$ 59,496	\$ 21,870
Total assets.	59,496	\$ 21,870
Liabilities:		
Due to students	-	\$ 21,870
Total liabilities	-	\$ 21,870
Net Assets:		
Held in trust for scholarships	59,496	
Total net assets	\$ 59,496	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Private-Purpose Trust
	Scholarship
Additions:	
Gifts and contributions.	\$ 4,055
Total additions.	4,055
Deductions:	
Scholarships awarded	4,756
Change in net assets	(701)
Net assets at beginning of year	60,197
Net assets at end of year	\$ 59,496

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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 533rd largest in the State of Ohio (among 613 public 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 864 students and other community members.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity", and as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units". The reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure that the basic financial statements of the District are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, food service, preschool, and student related activities of the District.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(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.

B. Fund Accounting

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

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

GOVERNMENTAL FUNDS

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

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

Classroom Facilities - The classroom facilities capital projects fund is used to account for monies received and expended in connection with contracts entered into by the District and the Ohio Department of Education for the building and equipping of classroom facilities.

Other governmental funds of the District are used to account for (a) the accumulation of resources for, and payment of, general long-term debt principal, interest and related costs; (b) financial resources to be used for the acquisition, construction, or improvement of capital facilities; and (c) grants and other resources whose use is restricted to a particular purpose.

PROPRIETARY FUNDS

Proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector. The District has no proprietary funds.

FIDUCIARY FUNDS

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The District's only trust fund is a private-purpose trust which accounts for scholarship programs for students. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency fund accounts for student activities.

C. Basis of Presentation and Measurement Focus

Government-wide Financial Statements - The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

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

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the District. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include amounts paid by the recipient of goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues of the District.

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the District are included on the statement of net assets.

Fund Financial Statements - Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column, and all nonmajor funds are aggregated into one column. Fiduciary funds are reported by fund type.

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

The private-purpose trust fund is reported using the economic resources measurement focus. Agency funds do not report a measurement focus as they do not report operations.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds also use the accrual basis of accounting.

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

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (see Note 6).

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

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

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

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

Deferred Revenue - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of June 30, 2004, but which were levied to finance fiscal year 2005 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the Statement of Revenues, Expenditures and Changes in Fund Balances as an expenditure with a like amount reported as intergovernmental revenue.

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

E. Budgets

The District is required by state statute to adopt an annual appropriated cash basis budget for all funds. The specific timetable for fiscal year 2004 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

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

3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The budget figures, as shown in the accompanying budgetary statement, reflect the amounts set forth in the final Amended Certificate issued for fiscal year 2004.
4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. State statute permits a temporary appropriation to be effective until no later than October 1 of each year. Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals.
5. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education.
6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions. All funds completed the year within the amount of their legally authorized cash basis appropriation.
7. Appropriations amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations, which either reallocated or increased the original appropriated amounts. All supplemental appropriations were legally enacted by the Board prior to June 30, 2004, however, none of these amendments were significant. The budget figures, as shown in the accompanying budgetary statement, reflect the final appropriation amounts including all amendments and modifications.
8. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the fund level.

F. Cash and Investments

To improve cash management, cash received by the District is pooled in a central bank account. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the basic financial statements.

During fiscal year 2004, investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio) and a repurchase agreement. Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements are reported at cost.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

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

The District has invested funds in STAR Ohio during fiscal 2004. 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, 2004.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. By policy of the Board of Education, investment earnings are assigned to the general fund and the classroom facilities fund. Interest revenue credited to the general fund during fiscal year 2004 amounted to \$5,277, which includes \$4,989 assigned from other funds.

For presentation on the basic financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

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

G. Inventory

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

On the fund financial statements, reported materials and supplies inventory is equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of net current assets.

Inventory consists of expendable supplies held for consumption, donated food and purchased food.

H. Capital Assets

Governmental capital assets are those assets generally related to governmental activities. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets, but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and deletions during the year. Donated capital assets are recorded at their fair market values as of the date received. During fiscal year 2004, the District increased its capitalization threshold from \$500 to \$5,000. Improvements are capitalized, the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. The District does not possess infrastructure.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

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

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

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

I. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund receivables/payables.” These amounts are eliminated in the governmental activities column on the Statement of Net Assets.

J. Compensated Absences

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

In accordance with the provisions of GASB Statement No. 16, “Accounting for Compensated Absences”, a liability for vacation leave is accrued if a) the employees’ rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2004, by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees with at least five years of service were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and severance payments has been calculated using pay rates in effect at June 30, 2004, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

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

For governmental fund financial statements, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account “compensated absences payable” in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

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

K. Accrued Liabilities and Long-Term Obligations

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, compensated absences, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds are recognized as a liability on the fund financial statements when due.

L. Fund Balance Reserves

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, materials and supplies inventory, debt service, property tax revenue unavailable for appropriation, and school bus purchases. The reserve for property tax revenue unavailable for appropriation represents taxes recognized as revenue under GAAP, but not available for appropriation under state statute.

M. Net Assets

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

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

N. Prepayments

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These items are reported as assets on the balance sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed. The District does not report prepayments.

O. Estimates

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

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

P. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents set-aside to establish a textbook reserve and capital acquisition reserve. These reserves are required by state statute. A schedule of statutory reserves is presented in Note 16.

Q. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the basic financial statements.

R. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2004.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Changes in Accounting Principles and Restatement of Fund Balance

For fiscal year 2004, the District has implemented GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments", GASB Statement No. 37, "Basic Financial Statements for State and Local Governments: Omnibus", GASB Statement No. 38, "Certain Financial Statement Note Disclosures", GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units", GASB Statement No. 41, "Budgetary Comparison Schedule - Perspective Differences", and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements". At June 30, 2003, there was no effect on fund balance as a result of implementing GASB Statements Nos. 37, 38, 39 and 41.

GASB Statement No. 37 clarifies certain provisions of Statement No. 34, including the required content of the Management Discussion and Analysis, the classification of program revenues and the criteria for determining major funds. GASB Statement No. 38, modifies, establishes and rescinds certain financial statement note disclosures. GASB Statement No. 39 further defines the guidelines of GASB Statement No. 14, "The Financial Reporting Entity."

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

GASB Statement No. 41 allows the presentation of budgetary schedules as required supplementary information based on the fund, organization or program structure that the government uses for its legally adopted budget when significant budgetary perspective differences result in the school district not being able to present budgetary comparison for the general and each major special revenue fund.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

The government-wide financial statements show the District's programs for governmental activities. The beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at June 30, 2003, caused by the elimination of the internal service fund and the conversion to the accrual basis of accounting.

Governmental Activities - Fund Reclassification and Restatement of Fund Balance - Certain funds have been reclassified to properly reflect their intended purpose in accordance with the Standards of GASB Statement No. 34. It was also determined that GASB Interpretation No. 6 had an effect on fund balance as previously reported at June 30, 2003.

The fund reclassifications and the implementation of GASB Interpretation No. 6 had the following effect on the District's governmental fund balances as previously reported:

	General	Classroom Facilities	Nonmajor	Total
Fund balance June 30, 2003	\$ (664,202)	\$ 879,732	\$ 99,020	\$ 314,550
Fund reclassifications	-	-	(4,770)	(4,770)
Implementation of GASB Interpretation No. 6	9,055	-	-	9,055
Restated fund balance, June 30, 2003	\$ (655,147)	\$ 879,732	\$ 94,250	\$ 318,835

The transition from governmental fund balance to net assets of the governmental activities is presented as follows:

	Total
Restated fund balance, June 30, 2003	\$ 318,835
GASB 34 adjustments:	
Long-term (deferred) assets	218,074
Capital assets	18,378,826
Accrued interest payable	(9,354)
Pension obligation	(26,161)
Long-term liabilities	(2,522,905)
Governmental activities net assets, June 30, 2003	\$ 16,357,315

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

B. Deficit Fund Balances

Fund balances at June 30, 2004 included the following individual fund deficits:

	<u>Deficit</u>
<u>Major Funds</u>	
General	\$ (546,718)
<u>Nonmajor Funds</u>	
Food Service	(6,304)
Disadvantaged Pupil Impact Aid	(13)
Summer Intervention	(21)
Title I	(9,462)
Title VI	(7)
Title II-A	(21)
Permanent Improvement	(91)
FEMA Grant	(22,367)

These funds complied with Ohio state law, which does not permit a cash basis deficit at year-end. The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. These deficit fund balances are the result of adjustments for accrued liabilities.

C. Compliance

Contrary to Ohio Revised Code Section 5705.10, the District had the following negative cash balances in the following funds.

	<u>Deficit</u>
<u>Nonmajor Governmental Funds</u>	
Food Service	\$ 1
FEMA Grant	22,367

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS

The District maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the basic financial statements 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

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

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 finance 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 deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal 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 2% 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);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed 180 days in an amount not the exceed 25% of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt instrument 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

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

Cash on hand: At fiscal year-end, the District had \$200 in undeposited cash on hand which is included on the financial statements of the District as part of “Equity in Pooled Cash and Cash Equivalents”.

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 \$(29,602) and the bank balance was \$15,000. The entire bank balance of \$15,000 was covered by federal depository insurance. A liability was not recorded for the negative carrying amount of deposits because there was no actual overdraft, due to the “zero-balance” nature of the District’s bank account. The negative carrying amount of deposits is due to the sweeping of monies into overnight repurchase agreements, which are reported as “investments”.

Collateral is required for demand deposits and certificates of deposit 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 the 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.

Investments: The District’s investments are categorized below to give an indication of the level of custodial credit risk assumed by the entity at fiscal 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>\$ 527,061</u>	\$ 527,061	\$ 527,061
	<u>\$ 527,061</u>		
Investment in STAR Ohio		<u>13,082</u>	<u>13,082</u>
Total investments		<u>\$ 540,143</u>	<u>\$ 540,143</u>

The classification of cash and cash equivalents and investments on the basic financial statements is based on criteria set forth in GASB Statement No. 9. A reconciliation between the classifications of cash and investments on the basic financial statements and the classification per GASB Statement No. 3 is as follows:

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

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

	<u>Cash and Cash Equivalents/Deposits</u>	<u>Investments</u>
GASB Statement No. 9	\$ 510,741	\$ -
Investments of the cash management pool:		
Repurchase agreement	(527,061)	527,061
Investment in STAR Ohio	(13,082)	13,082
Cash on hand	<u>(200)</u>	<u>-</u>
GASB Statement No. 3	<u>\$ (29,602)</u>	<u>\$ 540,143</u>

NOTE 5 - INTERFUND TRANSACTIONS

A. Transfers

Interfund transfers for the year ended June 30, 2004 consisted of the following, as reported on the fund financial statements:

<u>Transfers from General fund to:</u>	
Nonmajor Governmental funds	\$ 14,663

B. Due From/To Other Funds

Due from/to other funds for the year ended June 30, 2004 consisted of the following, as reported on the fund financial statements:

<u>Due from other funds</u>	<u>Due to other funds</u>	<u>Amount</u>
General	Nonmajor governmental funds	\$ 1
Classroom Facilities	Nonmajor governmental funds	22,367

The purpose of these interfund transactions is to eliminate negative cash balances in certain nonmajor governmental funds.

NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2004 represents collections of calendar year 2003 taxes. Real property taxes received in calendar year 2004 were levied after April 1, 2003, on the assessed value listed as of January 1, 2003, the lien date. Assessed values for real property taxes are established by state law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, state statute permits alternate payment dates to be established.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 6 - PROPERTY TAXES - (Continued)

Public utility property tax revenue received in calendar 2004 represents collections of calendar year 2003 taxes. Public utility real and tangible personal property taxes received in calendar year 2004 became a lien December 31, 2002, were levied after April 1, 2003 and are collected in 2004 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2004 (other than public utility property) represents the collection of 2004 taxes. Tangible personal property taxes received in calendar year 2004 were levied after April 1, 2004, on the value as of December 31, 2003. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

The District receives property taxes from Trumbull County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2004, are available to finance fiscal year 2004 operations. The amount available to be advanced can vary based on the date tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2004 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2004 was \$19,434 in the general fund. This amount has been recorded as revenue. The amount available as an advance at June 30, 2003 was \$8,802 in the general fund. On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue, while on a modified accrual basis the revenue has been deferred.

The assessed values upon which the fiscal year 2004 taxes were collected are:

	2003 Second Half Collections		2004 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 45,498,330	88.38	\$ 46,191,110	90.17
Public utility personal	2,007,790	3.90	1,891,649	3.69
Tangible personal property	<u>3,974,267</u>	<u>7.72</u>	<u>3,145,529</u>	<u>6.14</u>
Total	<u>\$ 51,480,387</u>	<u>100.00</u>	<u>\$ 51,228,288</u>	<u>100.00</u>

Tax rate per \$1,000 of assessed valuation:

Operations	\$ 48.40	\$ 48.40
Debt Service	3.40	3.25
Permanent Improvement	2.00	2.00

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 7 - RECEIVABLES

Receivables at June 30, 2004 consisted of taxes and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the Statement of Net Assets follows:

Governmental Activities:

Taxes	\$ 1,631,224
Intergovernmental	<u>27,456</u>
Total	<u>\$ 1,658,680</u>

Receivables have been disaggregated on the face of the basic financial statements. All receivables are expected to be collected within the subsequent year.

NOTE 8 - CAPITAL ASSETS

- A. The capital asset balances of the governmental activities have been restated due to changes in the District's capital asset policy (see Note 2.H), to include land values not reported in the prior year, to depreciate governmental capital assets in accordance with GASB Statement No. 34, and for errors and omissions.

	Balance <u>6/30/03</u>	<u>Adjustments</u>	Restated Balance <u>6/30/03</u>
Governmental Activities			
Capital assets, not being depreciated:			
Land	\$ -	\$ 311,600	\$ 311,600
Construction in progress	<u>16,611,133</u>	<u>-</u>	<u>16,611,133</u>
Total capital assets, not being depreciated	<u>16,611,133</u>	<u>311,600</u>	<u>16,922,733</u>
Capital assets, being depreciated:			
Land improvements	371,096	152,912	524,008
Buildings and improvements	2,890,171	(1,056,595)	1,833,576
Furniture and equipment	1,839,998	(1,525,387)	314,611
Vehicles	<u>171,302</u>	<u>60,016</u>	<u>231,318</u>
Total capital assets, being depreciated	<u>5,272,567</u>	<u>(2,369,054)</u>	<u>2,903,513</u>
Less: accumulated depreciation:	<u>-</u>	<u>(1,447,420)</u>	<u>(1,447,420)</u>
Governmental activities capital assets, net	<u>\$ 21,883,700</u>	<u>\$ (3,504,874)</u>	<u>\$ 18,378,826</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 8 - CAPITAL ASSETS - (Continued)

B. Capital asset activity for the fiscal year ended June 30, 2004 was as follows:

	Restated Balance <u>06/30/03</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>06/30/04</u>
Governmental Activities				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 311,600	\$ -	\$ -	\$ 311,600
Construction in progress	<u>16,611,133</u>	<u>1,477,495</u>	<u>(18,088,628)</u>	<u>-</u>
Total capital assets, not being depreciated	<u>16,922,733</u>	<u>1,477,495</u>	<u>(18,088,628)</u>	<u>311,600</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	524,008	-	-	524,008
Buildings and improvements	1,833,576	18,088,628	-	19,922,204
Furniture and equipment	314,611	91,343	-	405,954
Vehicles	<u>231,318</u>	<u>-</u>	<u>-</u>	<u>231,318</u>
Total capital assets, being depreciated	<u>2,903,513</u>	<u>18,179,971</u>	<u>-</u>	<u>21,083,484</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(45,986)	(24,673)	-	(70,659)
Buildings and improvements	(1,151,637)	(1,473,148)	-	(2,624,785)
Furniture and equipment	(59,546)	(37,531)	-	(97,077)
Vehicles	<u>(190,251)</u>	<u>(7,467)</u>	<u>-</u>	<u>(197,718)</u>
Total accumulated depreciation	<u>(1,447,420)</u>	<u>(1,542,819)</u>	<u>-</u>	<u>(2,990,239)</u>
Governmental activities capital assets, net	<u>\$ 18,378,826</u>	<u>\$ 18,114,647</u>	<u>\$ (18,088,628)</u>	<u>\$ 18,404,845</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:

Regular \$ 1,484,406

Support Services:

Board of education 3,309
Administration 13,594
Operations and maintenance 2,317
Pupil transportation 7,467
Central 2,332

Extracurricular activities 495

Food service operations 28,899

Total depreciation expense \$ 1,542,819

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 9 - LEASE PURCHASE AGREEMENT

- A.** On June 17, 2003, the District entered into a \$397,530 lease purchase agreement with the Second National Bank of Warren for the expansion of the gymnasium associated with the Construction Project described in Note 10.A. The source of revenue to fund the principal and interest payments is derived from general operating revenues of the District. During fiscal year 2004, the District made \$74,385 in principal payments on the lease purchase agreement.

A liability in the amount of the present value of the minimum lease payments has been recorded in the governmental activities on the statement of net assets. Governmental capital assets have been capitalized as a component of buildings and improvements in the amount of \$397,530. This amount represents the costs of the project funded by the lease purchase agreement that were incurred prior to June 30, 2004.

The following is a schedule of the future lease payments required under the lease purchase agreement as of June 30, 2004.

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 76,861	\$ 9,451	\$ 86,312
2006	79,421	6,891	86,312
2007	82,065	4,247	86,312
2008	<u>84,798</u>	<u>1,514</u>	<u>86,312</u>
Total	<u>\$ 323,145</u>	<u>\$ 22,103</u>	<u>\$ 345,248</u>

- B.** On June 30, 2004, the District entered into a \$91,343 lease purchase agreement with the IBM Credit Corporation for IBM computers. The source of revenue to fund the principal and interest payments is derived from general operating revenues of the District. The first scheduled debt service payment is due on July 1, 2004.

A liability in the amount of the present value of the minimum lease payments has been recorded in the governmental activities on the statement of net assets. Governmental capital assets have been capitalized as a component of furniture and equipment in the amount of \$91,343. This amount represents the present value of the minimum lease payments at the inception of the lease purchase agreement.

The following is a schedule of the future lease payments required under the lease purchase agreement as of June 30, 2004.

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 21,018	\$ 4,870	\$ 25,888
2006	21,925	3,962	25,887
2007	23,409	2,479	25,888
2008	<u>24,991</u>	<u>897</u>	<u>25,888</u>
Total	<u>\$ 91,343</u>	<u>\$ 12,208</u>	<u>\$ 103,551</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 10 - LONG-TERM OBLIGATIONS

- A. During fiscal year 2001, the District issued general obligation bonds to provide funds for renovations to the high school and to build a new elementary school (hereafter "Construction Project"). These bonds are general obligations of the District for which the full faith and credit of the District is pledged for repayment. Payments of principal and interest relating to this bond are recorded as an expenditure in the debt service fund. The source of payment is derived from a current 3.9 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, 2004, the total estimated cost of the Construction Project is \$18,659,977, of which OSFC will pay \$14,468,469.

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) at June 30, 2004 was \$4,000. A total of \$15,720 in accreted interest at June 30, 2004. The current interest bonds maturing on or after December 1, 2010 are subject to early redemption at the sole option of the District, at the following redemption prices, plus accrued interest:

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

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

The following is a schedule of activity for fiscal 2004 on the 2001 series general obligation bonds:

	Balance Outstanding <u>06/30/03</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>06/30/04</u>	Amounts Due in <u>One Year</u>
Current interest bonds	\$ 1,785,000	\$ -	\$ (60,000)	\$ 1,725,000	\$ 65,000
Capital appreciation bonds	<u>15,164</u>	<u>4,556</u>	<u>-</u>	<u>19,720</u>	<u>-</u>
Total G.O. bonds	<u>\$ 1,800,164</u>	<u>\$ 4,556</u>	<u>\$ (60,000)</u>	<u>\$ 1,744,720</u>	<u>\$ 65,000</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

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

Fiscal Year Ending June 30	Current Interest Bonds			Capital Appreciation Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2005	\$ 65,000	\$ 100,713	\$ 165,713	\$ -	\$ -	\$ -
2006	65,000	97,333	162,333	-	-	-
2007	70,000	93,920	163,920	-	-	-
2008	75,000	90,210	165,210	-	-	-
2009	80,000	86,160	166,160	-	-	-
2010 - 2014	255,000	386,300	641,300	170,000	-	170,000
2015 - 2019	545,000	272,700	817,700	-	-	-
2020 - 2023	570,000	86,900	656,900	-	-	-
Total	\$ 1,725,000	\$ 1,214,236	\$ 2,939,236	\$ 170,000	\$ -	\$ 170,000

- B.** The long-term obligations of the governmental activities have been restated at June 30, 2003. The balance of compensated absences has been restated from \$333,582 to \$326,578 for the implementation of GASB Interpretation No. 6, and the pension obligation balance of \$24,888 has been eliminated from long-term obligations in accordance with GASB Statement No. 34. Compensated absences will be paid from the fund in which the employee is paid. During the year ended June 30, 2004, the following changes occurred in the long-term obligations.

	Restated Balance 06/30/03	Additions	Reductions	Balance 06/30/04	Amounts Due in One Year
Governmental Activities:					
General obligation bonds	\$ 1,800,164	\$ 4,556	\$ (60,000)	\$ 1,744,720	\$ 65,000
Lease purchase agreements	397,530	91,343	(74,385)	414,488	97,879
Compensated absences	326,578	109,339	(58,979)	376,938	15,823
Total long-term obligations, governmental activities	<u>\$ 2,524,272</u>	<u>\$ 205,238</u>	<u>\$ (193,364)</u>	<u>\$ 2,536,146</u>	<u>\$ 178,702</u>

C. 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, 2004 are a voted debt margin of \$2,903,628 and an unvoted debt margin of \$51,228.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 11 - 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 2003.

B. Health Self Insurance

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

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

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

C. Workers' Compensation

The District participates in the Ohio School Boards Association Workers' Compensation Group Rating Plan (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 THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 11 - 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 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. 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 State Statute 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, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476, or by calling (614) 222-5853.

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate of 14% for 2004, 9.09% was the portion to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The District's required contributions to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$74,288, \$69,784, and \$70,676, respectively; 50.83% has been contributed for fiscal year 2004 and 100% for the fiscal years 2003 and 2002. \$36,528 represents the unpaid contribution for fiscal year 2004.

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute 14%; 13% 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% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The District's required contributions to STRS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$385,991, \$381,879, and \$375,648, respectively; 82.85% has been contributed for fiscal year 2004 and 100% for the fiscal years 2003 and 2002. \$66,208 represents the unpaid contribution for fiscal year 2004. Contributions to the DC and Combined Plans for fiscal 2004 were \$2,315 made by the District and \$2,385 made by plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by SERS or STRS have an option to choose Social Security or SERS/STRS. As of June 30, 2004, certain members of the Board of Education have elected Social Security. The District's liability is 6.20 percent of wages paid.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 13 - POSTEMPLOYMENT BENEFITS

The District provides comprehensive health care benefits to retired teachers and their dependents through STRS, and to retired non-certified employees and their dependents through SERS. Benefits include hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. Benefit provisions and the obligations to contribute are established by STRS and SERS based on authority granted by state statute. Both STRS and SERS 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% of covered payroll. For this fiscal year, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve fund. For the District, this amount equaled \$27,571 during fiscal 2004.

STRS pays health care benefits from the Health Care Reserve fund. The balance in the Health Care Reserve fund was \$3.1 billion at June 30, 2004. For the fiscal year ended June 30, 2004, net health care costs paid by STRS were \$268.739 million and STRS had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

For this fiscal year, employer contributions to fund health care benefits were 4.91% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay has been established at \$25,400. The surcharge, added to the unallocated portion of the 14% 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% of annual health care expenses, before premium deduction. Gross expenses for health care at June 30, 2004 were \$223.444 million and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million and SERS had approximately 62,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$29,422 during the 2004 fiscal year.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING

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

The Statement of Revenue, Expenditures, and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to a reservation of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis).

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the general fund is as follows:

Net Change in Fund Balance

	<u>General Fund</u>
Budget basis	\$ (39,882)
Net adjustment for revenue accruals	35,012
Net adjustment for expenditure accruals	39,758
Net adjustment for other sources/uses	69,388
Adjustment for encumbrances	4,153
GAAP basis	\$ 108,429

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

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 are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the District. However in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the District.

B. Litigation

The District is involved in no material litigation as either plaintiff or defendant.

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 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, 2004, the reserve activity was as follows:

	<u>Textbooks</u>	<u>Capital Maintenance</u>	<u>School Bus Purchases</u>
Set-aside cash balance as of June 30, 2003	\$ (150,641)	\$ -	\$ 991
Current year set-aside requirement	113,357	113,357	-
Qualifying disbursements	<u>(131,801)</u>	<u>(998,282)</u>	<u>-</u>
Total	<u>\$ (169,085)</u>	<u>\$ (884,925)</u>	<u>\$ 991</u>
Cash balance carried forward to FY 2005	<u>\$ (169,085)</u>	<u>\$ -</u>	<u>\$ 991</u>
A schedule of the restricted assets at June 30, 2004 follows:			
Amounts restricted for school bus purchases	<u>\$ 991</u>		
Total restricted assets	<u>\$ 991</u>		

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**Auditor of State
Betty Montgomery**

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of McDonald Local School District (the District) as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements and have issued our report thereon dated May 31, 2005, wherein we noted the District adopted Governmental Accounting Standards Board Statement No. 34. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the District's management dated May 31, 2005, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters that we must report under *Government Auditing Standards*. In a separate letter to the District's management dated May 31, 2005, we reported other matters related to noncompliance we deemed immaterial.

McDonald Local School District
Trumbull County
Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Required by *Government Auditing Standards*
Page 2

We intend this report solely for the information and use of the management and the Board of Education.
It is not intended for anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

May 31, 2005



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

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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
AUGUST 23, 2005**