



Mary Taylor, CPA
Auditor of State

**MCDONALD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the McDonald Local School District, Trumbull County, Ohio (the District), as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the McDonald Local School District, Trumbull County, Ohio, as of June 30, 2006, and the respective changes in financial position thereof, and the respective budgetary comparisons for the General Fund and Emergency Levy Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 29, 2007, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of law, regulations, contracts, and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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 inquires 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 "Mary Taylor". The signature is written in a cursive, flowing style.

Mary Taylor, CPA
Auditor of State

June 29, 2007

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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, 2006. 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 2006 are as follows:

- In total, net assets of governmental activities decreased \$634,587 which represents a 4.21% decrease from 2005.
- General revenues accounted for \$5,245,299 in revenue or 80.06% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$1,306,721 or 19.94% of total revenues of \$6,552,020.
- The District had \$7,186,607 in expenses related to governmental activities; \$1,306,721 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 \$5,245,299 were not adequate to provide for these programs.
- The District's major governmental funds are the general fund and emergency levy fund. The general fund had \$5,574,181 in revenues and \$5,596,749 in expenditures and other financing uses. During fiscal year 2006, the general fund's fund deficit increased \$22,568 from \$623,135 to \$645,703.
- The District's emergency levy fund had \$203,208 in revenues and \$203,208 in expenditures. During fiscal year 2006, the emergency levy fund's fund balance was \$0.

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 emergency levy 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, 2006

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 2006?" 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 emergency levy 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 15-20 of this report.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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 21 and 22. 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 23-50 of this report.

The District as a Whole

Recall that the Statement of Net Assets provides the perspective of the District as a whole.

The table below provides a summary of the District's net assets for 2006 and 2005.

	Net Assets	
	Governmental Activities <u>2006</u>	Governmental Activities <u>2005</u>
<u>Assets</u>		
Current and other assets	\$ 1,882,001	\$ 1,914,582
Capital assets	<u>17,105,062</u>	<u>17,798,190</u>
Total assets	<u>18,987,063</u>	<u>19,712,772</u>
<u>Liabilities</u>		
Current liabilities	2,206,134	2,144,198
Long-term liabilities	<u>2,350,109</u>	<u>2,503,167</u>
Total liabilities	<u>4,556,243</u>	<u>4,647,365</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	15,239,493	15,745,041
Restricted	160,647	361,449
Unrestricted (deficit)	<u>(969,320)</u>	<u>(1,041,083)</u>
Total net assets	<u>\$ 14,430,820</u>	<u>\$ 15,065,407</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2006, the District's assets exceeded liabilities by \$14,430,820. Of this total, \$160,647 is restricted in use.

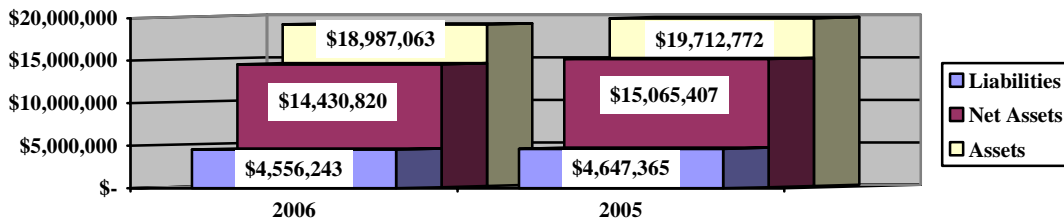
**MCDONALD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

At year-end, capital assets represented 90.09% 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, 2006, were \$15,239,493. 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, \$160,647, represents resources that are subject to external restriction on how they may be used. The remaining deficit of unrestricted net assets is \$969,320.

Governmental Activities



The table below shows the change in net assets for fiscal year 2006:

Change in Net Assets

	Governmental Activities 2006	Governmental Activities 2005
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 960,462	\$ 819,024
Operating grants and contributions	330,133	352,321
Capital grants and contributions	16,126	34,788
General revenues:		
Property taxes	1,465,422	1,461,821
Grants and entitlements	3,696,653	3,605,757
Investment earnings	9,055	10,536
Other	74,169	91,644
Total revenues	<u>6,552,020</u>	<u>6,375,891</u>

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

Change in Net Assets

	Governmental Activities <u>2006</u>	Governmental Activities <u>2005</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 4,174,301	\$ 4,189,813
Special	726,318	589,268
Vocational	54,151	91,500
Support services:		
Pupil	180,198	162,617
Instructional staff	103,618	99,069
Board of education	43,962	43,178
Administration	567,491	508,852
Fiscal	190,235	208,554
Operations and maintenance	513,580	523,783
Pupil transportation	125,772	100,960
Central	14,833	2,458
Food service operations	120,601	148,632
Extracurricular activities	260,768	226,880
Interest and fiscal charges	<u>110,779</u>	<u>170,744</u>
Total expenses	<u>7,186,607</u>	<u>7,066,308</u>
Change in net assets	(634,587)	(690,417)
Net assets at beginning of year	<u>15,065,407</u>	<u>15,755,824</u>
Net assets at end of year	<u>\$ 14,430,820</u>	<u>\$ 15,065,407</u>

Governmental Activities

Net assets of the District's governmental activities decreased \$634,587. Total governmental expenses of \$7,186,607 were offset by program revenues of \$1,306,721 and general revenues of \$5,245,299. Program revenues supported 18.18% of the total governmental expenses.

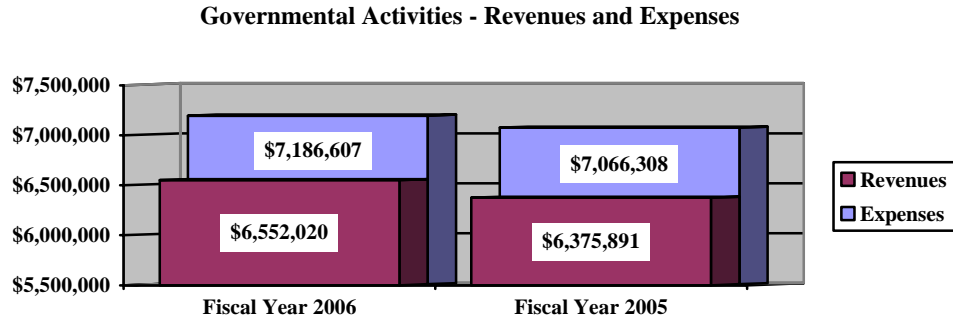
The primary sources of revenue for governmental activities are derived from property taxes, and grants and entitlements. These revenue sources represent 78.79% of total governmental revenue.

The largest expense of the District is for instructional programs. Instruction expenses totaled \$4,954,770 or 68.94% of total governmental expenses for fiscal 2006.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

The graph below presents the District's governmental activities revenue and expenses for fiscal year 2006 and 2005.



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.

	Governmental Activities			
	Total Cost of Services 2006	Net Cost of Services 2006	Total Cost of Services 2005	Net Cost of Services 2005
Program expenses				
Instruction:				
Regular	\$ 4,174,301	\$ 3,332,591	\$ 4,189,813	\$ 3,464,147
Special	726,318	529,990	589,268	406,148
Vocational	54,151	54,151	91,500	91,500
Support services:				
Pupil	180,198	180,198	162,617	162,617
Instructional staff	103,618	103,618	99,069	99,069
Board of education	43,962	43,962	43,178	43,178
Administration	567,491	522,461	508,852	503,852
Fiscal	190,235	189,618	208,554	207,751
Operations and maintenance	513,580	493,717	523,783	499,047
Pupil transportation	125,772	125,772	100,960	100,960
Central	14,833	14,833	2,458	2,458
Food service operations	120,601	13,362	148,632	7,861
Extracurricular activities	260,768	164,834	226,880	100,843
Interest and fiscal charges	110,779	110,779	170,744	170,744
Total expenses	<u>\$ 7,186,607</u>	<u>\$ 5,879,886</u>	<u>\$ 7,066,308</u>	<u>\$ 5,860,175</u>

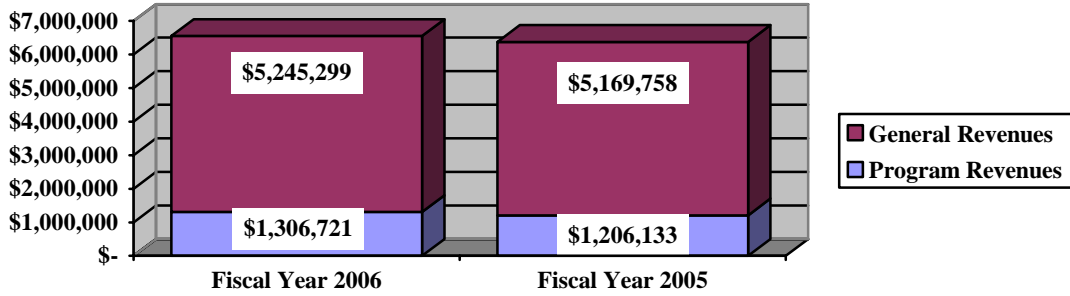
The dependence upon tax and other general revenues for governmental activities is apparent, 79.05% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 81.82%. The District's taxpayers, as a whole, are by far the 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, 2006**

The graph below presents the District's governmental activities revenue for fiscal year 2006 and 2005.

Governmental Activities - General and Program Revenues



The District's Funds

The District's governmental funds reported a combined fund deficit balance of \$513,049, which is a larger deficit than last year's fund deficit balance of \$358,946. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2006 and 2005.

	Fund Balance <u>June 30, 2006</u>	Fund Balance <u>June 30, 2005</u>	<u>(Decrease)</u>	Percentage <u>Change</u>
General	\$ (645,703)	\$ (623,135)	\$ (22,568)	(3.62) %
Emergency Levy	-	-	-	- %
Other Governmental	<u>132,654</u>	<u>264,189</u>	<u>(131,535)</u>	(49.79) %
Total	<u>\$ (513,049)</u>	<u>\$ (358,946)</u>	<u>\$ (154,103)</u>	(42.93) %

General Fund

The District's general fund deficit balance increased \$22,568. The increase in fund deficit can be attributed to several items related to increasing revenues and increased expenditures. Expenditures exceed revenues for fiscal year 2006 by \$16,568. 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, 2006

	<u>2006</u> <u>Amount</u>	<u>2005</u> <u>Amount</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>				
Taxes	\$ 1,065,330	\$ 1,055,720	\$ 9,610	0.91 %
Tuition	768,518	622,255	146,263	23.51 %
Earnings on investments	9,055	10,536	(1,481)	(14.06) %
Intergovernmental	3,677,124	3,586,290	90,834	2.53 %
Other revenues	<u>54,154</u>	<u>77,568</u>	<u>(23,414)</u>	(30.19) %
Total	<u>\$ 5,574,181</u>	<u>\$ 5,352,369</u>	<u>\$ 221,812</u>	4.14 %
<u>Expenditures</u>				
Instruction	\$ 3,841,098	\$ 3,759,368	\$ 81,730	2.17 %
Support services	1,456,981	1,347,405	109,576	8.13 %
Extracurricular activities	159,240	147,485	11,755	7.97 %
Debt service	<u>133,430</u>	<u>133,431</u>	<u>(1)</u>	(0.00) %
Total	<u>\$ 5,590,749</u>	<u>\$ 5,387,689</u>	<u>\$ 203,060</u>	3.77 %

Emergency Levy Fund

The District's emergency levy fund had \$203,208 in revenues and \$203,208 in expenditures. During fiscal year 2006, the emergency levy fund's fund balance was \$0.

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 2006, the District amended its general fund budget several times. For the general fund, original budgeted revenues and other financing sources were \$5,548,240 and final budgeted revenues and other financing sources were \$5,572,623. Actual revenues and other financing sources for fiscal 2006 were \$5,574,533, which was \$1,910 more than the final budgeted revenues.

General fund original appropriations (appropriated expenditures including other financing uses) of \$5,575,343 were decreased to \$5,543,028 in the final appropriations. The actual budget basis expenditures for fiscal year 2006 totaled \$5,575,005, which was \$31,977 more than the final budget appropriations.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2006, the District had \$17,105,062 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 2006 balances compared to 2005:

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

	Governmental Activities	
	2006	2005
Land	\$ 311,600	\$ 311,600
Land improvements	404,001	428,675
Building and improvements	16,109,957	16,703,688
Furniture and equipment	260,838	328,094
Vehicles	18,666	26,133
Total	\$ 17,105,062	\$ 17,798,190

The overall decrease in capital assets of \$693,128 is due to depreciation expense of \$701,237 being more than capital outlays of \$8,109 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, 2006, the District had \$1,628,777 in general obligation bonds outstanding. Of this total, \$80,000 is due within one year and \$1,548,777 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
	2006	2005
General obligation bonds	\$ 1,628,777	\$ 1,686,135
Total	\$ 1,628,777	\$ 1,686,135

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, 2006**

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 this policy in place, we have increased participation from 90 students in 2003-2004 school year to 150 students this year. This policy has 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 400 students since the policy was implemented, 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 operating levy in the District's 86-year history and have not asked for a new operating levy in nine 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, 2006

	<u>Governmental Activities</u>
Assets:	
Equity in pooled cash and cash equivalents. . .	\$ 146,474
Receivables:	
Taxes	1,666,148
Accounts	2,806
Intergovernmental	14,373
Materials and supplies inventory	163
Unamortized bond issue costs	52,037
Capital assets:	
Land	311,600
Depreciable capital assets, net	16,793,462
Capital assets, net.	<u>17,105,062</u>
 Total assets.	 <u>18,987,063</u>
Liabilities:	
Accounts payable.	1,225
Accrued wages and benefits	432,270
Pension obligation payable.	132,220
Intergovernmental payable	107,357
Deferred revenue	1,518,989
Accrued interest payable	14,073
Long-term liabilities:	
Due within one year.	224,855
Due within more than one year	2,125,254
Total liabilities	<u>4,556,243</u>
Net Assets:	
Invested in capital assets, net of related debt.	15,239,493
Restricted for:	
Capital projects	132,740
Debt service.	11,763
State funded programs	8,000
Student activities	6,192
Other purposes	1,952
Unrestricted (deficit)	<u>(969,320)</u>
Total net assets	<u>\$ 14,430,820</u>

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, 2006

		Program Revenues				Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	
Governmental activities:						
Instruction:						
Regular	\$ 4,174,301	\$ 783,516	\$ 43,935	\$ 14,259		\$ (3,332,591)
Special	726,318	-	196,328	-		(529,990)
Vocational	54,151	-	-	-		(54,151)
Support services:						
Pupil	180,198	-	-	-		(180,198)
Instructional staff	103,618	-	-	-		(103,618)
Board of education	43,962	-	-	-		(43,962)
Administration	567,491	28,030	17,000	-		(522,461)
Fiscal	190,235	-	383	234		(189,618)
Operations and maintenance	513,580	-	18,230	1,633		(493,717)
Pupil transportation	125,772	-	-	-		(125,772)
Central	14,833	-	-	-		(14,833)
Food service operations	120,601	52,982	54,257	-		(13,362)
Extracurricular activities	260,768	95,934	-	-		(164,834)
Interest and fiscal charges	110,779	-	-	-		(110,779)
Total governmental activities	\$ 7,186,607	\$ 960,462	\$ 330,133	\$ 16,126		(5,879,886)
		General Revenues:				
		Property taxes levied for:				
						1,062,083
						199,112
						150,129
						54,098
		Grants and entitlements not restricted				
						3,696,653
						9,055
						74,169
						5,245,299
						(634,587)
						15,065,407
						\$ 14,430,820

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

	<u>General</u>	<u>Emergency Levy</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in pooled cash and cash equivalents	\$ 4,583	\$ -	\$ 140,900	\$ 145,483
Receivables:				
Taxes	1,214,739	202,185	249,224	1,666,148
Accounts	-	-	2,806	2,806
Intergovernmental	-	-	14,373	14,373
Materials and supplies inventory	-	-	163	163
Restricted assets:				
Equity in pooled cash and cash equivalents	991	-	-	991
Total assets	<u>\$ 1,220,313</u>	<u>\$ 202,185</u>	<u>\$ 407,466</u>	<u>\$ 1,829,964</u>
Liabilities:				
Accounts payable	\$ 898	\$ -	\$ 327	\$ 1,225
Accrued wages and benefits	420,021	-	12,249	432,270
Pension obligation payable.	129,851	-	2,369	132,220
Intergovernmental payable.	104,714	-	2,643	107,357
Deferred revenue.	1,210,532	202,185	257,224	1,669,941
Total liabilities	<u>1,866,016</u>	<u>202,185</u>	<u>274,812</u>	<u>2,343,013</u>
Fund Balances:				
Reserved for encumbrances	1,612	-	10,517	12,129
Reserved for materials and supplies inventory.	-	-	163	163
Reserved for debt service	-	-	11,472	11,472
Reserved for property tax unavailable for appropriation	4,207	-	-	4,207
Reserved for school bus purchases.	991	-	-	991
Unreserved, undesignated (deficit), reported in:				
General fund	(652,513)	-	-	(652,513)
Special revenue funds.	-	-	(4,528)	(4,528)
Capital projects funds.	-	-	115,030	115,030
Total fund balances (deficit)	<u>(645,703)</u>	<u>-</u>	<u>132,654</u>	<u>(513,049)</u>
Total liabilities and fund balances	<u>\$ 1,220,313</u>	<u>\$ 202,185</u>	<u>\$ 407,466</u>	<u>\$ 1,829,964</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, 2006

Total governmental fund balances (deficit)		\$ (513,049)
<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.		17,105,062
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Taxes	\$ 142,952	
Intergovernmental revenue	8,000	
Total		150,952
Unamortized bond issuance costs are not recognized in the funds governmental activities in the statement of net assets.		52,037
Unamortized premiums on bond issuance is not recognized in the funds.		(141,437)
Unamortized deferred charges on refundings are not recognized in the funds.		91,822
Accrued interest payable is not due and payable in the current period and is therefore not reported in the funds.		(14,073)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
General obligation bonds payable	1,628,777	
Capital lease obligation	51,309	
Lease purchase agreements	215,263	
Compensated absences	405,145	
Total		(2,300,494)
Net assets of governmental activities		\$ 14,430,820

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, 2006

	<u>General</u>	<u>Emergency Levy</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
From local sources:				
Taxes	\$ 1,065,330	\$ 179,282	\$ 224,618	\$ 1,469,230
Tuition.	768,518	-	-	768,518
Earnings on investments.	9,055	-	-	9,055
Charges for services.	-	-	52,982	52,982
Extracurricular.	-	-	123,964	123,964
Classroom materials and fees	14,998	-	-	14,998
Other local revenues.	39,156	-	35,013	74,169
Intergovernmental - State.	3,677,124	23,926	64,450	3,765,500
Intergovernmental - Federal	-	-	269,412	269,412
Total revenue	<u>5,574,181</u>	<u>203,208</u>	<u>770,439</u>	<u>6,547,828</u>
Expenditures:				
Current:				
Instruction:				
Regular	3,328,094	15,084	131,020	3,474,198
Special.	459,918	52,927	197,571	710,416
Vocational.	53,086	-	-	53,086
Support services:				
Pupil.	172,834	-	-	172,834
Instructional staff	101,580	-	-	101,580
Board of education	39,853	-	-	39,853
Administration.	491,123	-	41,773	532,896
Fiscal	180,905	2,912	1,220	185,037
Operations and maintenance.	341,811	132,285	27,819	501,915
Pupil transportation	116,620	-	-	116,620
Central.	12,255	-	-	12,255
Food service operations	-	-	115,234	115,234
Extracurricular activities.	159,240	-	95,914	255,154
Facilities acquisition and construction	-	-	134,360	134,360
Debt service:				
Principal retirement	122,577	-	65,000	187,577
Interest and fiscal charges	10,853	-	95,626	106,479
Bond issuance costs	-	-	52,301	52,301
Total expenditures	<u>5,590,749</u>	<u>203,208</u>	<u>957,838</u>	<u>6,751,795</u>
Excess of revenues under expenditures	<u>(16,568)</u>	<u>-</u>	<u>(187,399)</u>	<u>(203,967)</u>
Other financing sources (uses):				
Transfers in	-	-	6,000	6,000
Transfers (out).	(6,000)	-	-	(6,000)
Premium on bonds issued.	-	-	142,155	142,155
Issuance of bonds.	-	-	1,289,997	1,289,997
Payment to refunding bond escrow agent	-	-	(1,382,288)	(1,382,288)
Total other financing sources (uses)	<u>(6,000)</u>	<u>-</u>	<u>55,864</u>	<u>49,864</u>
Net change in fund balances	<u>(22,568)</u>	<u>-</u>	<u>(131,535)</u>	<u>(154,103)</u>
Fund balances (deficit) at beginning of year.	<u>(623,135)</u>	<u>-</u>	<u>264,189</u>	<u>(358,946)</u>
Fund balances (deficit) at end of year	<u>\$ (645,703)</u>	<u>\$ -</u>	<u>\$ 132,654</u>	<u>\$ (513,049)</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, 2006

Net change in fund balances - total governmental funds	\$	(154,103)
<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.		
Capital asset additions	8,109	
Depreciation expense	(701,237)	
Total		(693,128)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Taxes	(3,808)	
Intergovernmental	8,000	
Total		4,192
Repayment of bond and lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets.		
		187,577
The issuance of refunding bonds are recorded as an other financing source in the governmental funds funds; however, the proceeds increase long-term liabilities on the statement net assets.		
		(1,289,997)
Payments to refunding bond escrow agents are an other financing use in the governmental funds, but the payment reduces long-term liabilities on the statement of net assets.		
		1,290,000
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 following resulted in additional interest being reported on the statement of activities:		
Decrease in accrued interest payable	3,357	
Accreted interest on capital appreciation bonds	(7,645)	
Bond issuance costs incurred in the fiscal year	52,301	
Amortization of bond issuance costs	(264)	
Premium on bonds issued in the fiscal year	(142,155)	
Amortization on bond premiums	718	
Deferred charge on refunding incurred in fiscal year	92,288	
Amortization of deferred charge on refunding	(466)	
Total		(1,866)
Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.		
		22,738
Change in net assets of governmental activities	\$	(634,587)

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, 2006

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Taxes	\$ 1,060,656	\$ 1,065,317	\$ 1,065,682	\$ 365
Tuition.	764,893	768,255	768,518	263
Earnings on investments.	9,012	9,052	9,055	3
Classroom materials and fees	14,927	14,993	14,998	5
Other local revenues	7,866	7,900	7,903	3
Intergovernmental - State	<u>3,659,780</u>	<u>3,675,864</u>	<u>3,677,124</u>	<u>1,260</u>
Total revenue	<u>5,517,134</u>	<u>5,541,381</u>	<u>5,543,280</u>	<u>1,899</u>
Expenditures:				
Current:				
Instruction:				
Regular	3,313,789	3,294,581	3,333,572	(38,991)
Special.	436,375	433,846	427,998	5,848
Vocational.	75,977	75,537	76,978	(1,441)
Support services:				
Pupil.	160,976	160,043	169,834	(9,791)
Instructional staff	90,781	90,255	103,742	(13,487)
Board of education	44,078	43,823	39,505	4,318
Administration.	474,067	471,319	489,737	(18,418)
Fiscal	146,411	145,562	179,365	(33,803)
Operations and maintenance.	590,090	586,670	465,158	121,512
Pupil transportation	86,702	86,199	114,731	(28,532)
Central.	-	-	11,781	(11,781)
Extracurricular activities.	<u>140,004</u>	<u>139,193</u>	<u>156,604</u>	<u>(17,411)</u>
Total expenditures	<u>5,559,250</u>	<u>5,527,028</u>	<u>5,569,005</u>	<u>(41,977)</u>
Excess of revenues over (under) expenditures.	<u>(42,116)</u>	<u>14,353</u>	<u>(25,725)</u>	<u>(40,078)</u>
Other financing sources (uses):				
Refund of prior year expenditure.	31,106	31,242	31,253	11
Transfers (out)	(10,058)	(10,000)	(6,000)	4,000
Advances (out)	<u>(6,035)</u>	<u>(6,000)</u>	<u>-</u>	<u>6,000</u>
Total other financing sources (uses)	<u>15,013</u>	<u>15,242</u>	<u>25,253</u>	<u>10,011</u>
Net change in fund balance	(27,103)	29,595	(472)	(30,067)
Fund balance at beginning of year.	2,422	2,422	2,422	-
Prior year encumbrances appropriated	2,012	2,012	2,012	-
Fund balance at end of year	<u>\$ (22,669)</u>	<u>\$ 34,029</u>	<u>\$ 3,962</u>	<u>\$ (30,067)</u>

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)
EMERGENCY LEVY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Taxes	\$ 179,099	\$ 179,099	\$ 179,282	\$ 183
Intergovernmental - State	23,901	23,901	23,926	25
Total revenue	<u>203,000</u>	<u>203,000</u>	<u>203,208</u>	<u>208</u>
Expenditures:				
Current:				
Instruction:				
Regular	32,451	32,000	15,084	16,916
Special	25,352	25,000	52,927	(27,927)
Support services:				
Fiscal	3,027	2,985	2,912	73
Operations and maintenance	142,378	140,400	132,285	8,115
Total expenditures	<u>203,208</u>	<u>200,385</u>	<u>203,208</u>	<u>(2,823)</u>
Net change in fund balance	(208)	2,615	-	(2,615)
Fund balance at beginning of year	-	-	-	-
Prior year encumbrances appropriated	-	-	-	-
Fund balance at end of year	<u>\$ (208)</u>	<u>\$ 2,615</u>	<u>\$ -</u>	<u>\$ (2,615)</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, 2006

	Private-Purpose Trust	
	Scholarship	Agency
Assets:		
Equity in pooled cash and cash equivalents	\$ 11,705	\$ 36,728
Total assets.	11,705	\$ 36,728
Liabilities:		
Due to students	-	\$ 36,728
Total liabilities	-	\$ 36,728
Net Assets:		
Held in trust for scholarships	11,705	
Total net assets	\$ 11,705	

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, 2006

	Private-Purpose Trust
	Scholarship
Additions:	
Gifts and contributions.	\$ 22,137
Total additions.	22,137
Reductions:	
Scholarships awarded	17,627
Change in net assets	4,510
Net assets at beginning of year	7,195
Net assets at end of year	\$ 11,705

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, 2006**

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 520th largest in the State of Ohio (among 615 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 57 certified and 17 non-certified personnel to provide services to approximately 903 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; or (2) the District is legally entitled to or can otherwise access the organization's resources; or (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 these 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, 2006

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

JOINTLY GOVERNED ORGANIZATIONS

Northeast 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, 6600 Youngstown-Warren Road, Niles, Ohio 44446.

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, 1200 DeBartolo Place, Suite 105, Youngstown, Ohio 44512-7019.

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, 2006

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.

Emergency Levy - The emergency levy special revenue fund is used to account for monies received and expended in connection with the emergency levy of the District.

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, 2006

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, 2006

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, 2006, but which were levied to finance fiscal year 2007 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 2006 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, 2006**

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 statements, reflect the amounts set forth in the original and final Amended Certificate issued for fiscal year 2006.
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, 2006, however, none of these amendments were significant. The budget figures, as shown in the accompanying budgetary statements, reflect the original and 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 2006, investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio). Investments in STAR Ohio reported at fair value, which is based on quoted market prices.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

The District has invested funds in STAR Ohio during fiscal 2006. 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, 2006.

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 2006 amounted to \$9,055, which includes \$8,877 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 District'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 2006, the District maintained a capitalization threshold of \$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, 2006

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

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

<u>Description</u>	Governmental Activities <u>Estimated Lives</u>
Land improvements	5 - 20 years
Buildings and improvements	20 - 50 years
Equipment and furniture	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. The District had no interfund balances at June 30, 2006.

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, 2006, 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, 2006, 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, 2006

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 enabling legislation 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, 2006

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 an instructional materials reserve and a capital maintenance reserve. These reserves are required by State statute. A schedule of statutory reserves is presented in Note 17.

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 2006.

NOTE 3 - ACCOUNTABILITY & COMPLIANCE

A. Changes in Accounting Principles

For fiscal year 2006, the District has implemented GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries", GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation", and GASB Statement No. 47, "Accounting for Termination Benefits".

GASB Statement No. 42 amends GASB Statement No. 34 and establishes accounting and financial reporting standards for impairment of capital assets and accounting requirements for insurance recoveries.

GASB Statement No. 46 defines enabling legislation and specifies how net assets should be reported in the financial statements when there are changes in such legislation. This statement also requires governments to disclose in the notes to the basic financial statements the amount of net assets restricted by enabling legislation.

GASB Statement No. 47 establishes accounting standards for termination benefits.

The implementation of GASB Statement No. 42, GASB Statement No. 46, and GASB Statement No. 47 did not have an effect on the fund balances and net assets of the District as previously reported at June 30, 2005.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 3 - ACCOUNTABILITY & COMPLIANCE - (Continued)

B. Deficit Fund Balances

Fund balances at June 30, 2006 included the following individual fund deficits:

<u>Major Governmental Fund</u>	<u>Deficit</u>
General	\$ 645,703
 <u>Nonmajor Governmental Funds</u>	
Food Service	8,067
Disadvantaged Pupil Impact Aid	276
Summer Intervention	172
Title I Disadvantaged Children	7,581
Title V Innovative Education Program	55
Improving Teacher Quality	550

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.

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

Interim monies to 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 and interest by the United States;

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasury Asset Reserve of Ohio (STAR Ohio) investment pool;
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time: and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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

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, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

A. 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."

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

B. Deposits with Financial Institutions

At June 30, 2006, the carrying amount of all District deposits was \$180,803. Based on the criteria described in GASB Statement No. 40, “Deposits and Investment Risk Disclosures”, as of June 30, 2006, \$100,000 of the District’s bank balance of \$228,775 was covered by the Federal Deposit Insurance Corporation, while \$128,775 was exposed to custodial risk as discussed below.

Custodial credit risk is the risk that, in the event of bank failure, the District’s deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the District.

C. Investments

As of June 30, 2006, the District had the following investments and maturities:

<u>Investment type</u>	<u>Fair Market Value</u>	<u>Investment Maturity 6 months or less</u>
STAR Ohio	\$ 13,904	\$ 13,904

As of June 30, 2006, the weighted average maturity of investments is one day.

Interest Rate Risk: Interest rate risk arises because potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The Ohio Revised Code generally limits security purchases to those that mature within five years of the settlement date. The District’s investment policy addresses interest rate risk by requiring the consideration of cash flow requirements and market conditions in determining the term of an investment, and limiting investment portfolio maturities to five years or less.

Credit Risk: Standard & Poor’s has assigned STAR Ohio an AAAM money market rating. The District’s investment policy does not specifically address credit risk beyond the adherence to all relevant sections of the Ohio Revised Code.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The District’s investment policy does not specifically address custodial credit risk beyond the adherence to all relevant sections of the Ohio Revised Code.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Concentration of Credit Risk: The District's investment policy addresses concentration of credit risk by requiring investments to be diversified in order to reduce the risk of loss resulting from the over concentration of assets in a specific type of security, the erosion of market value, or by default. However, the District's investment policy does not place any limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2006:

<u>Investment type</u>	<u>Fair Market Value</u>	<u>% of Total</u>
STAR Ohio	\$ 13,904	100.00%

D. Reconciliation of Cash and Investments to the Statement of Net Assets

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2006:

<u>Cash and Investments per Note Disclosure</u>	
Carrying amount of deposits	\$ 180,803
Investments	13,904
Cash on hand	<u>200</u>
Total	<u>\$ 194,907</u>
<u>Cash and Investments per Statement of Net Assets</u>	
Governmental activities	\$ 146,474
Private-purpose trust funds	11,705
Agency funds	<u>36,728</u>
Total	<u>\$ 194,907</u>

NOTE 5 - INTERFUND TRANSACTIONS

Interfund transfers for the fiscal year ended June 30, 2006 consisted of the following, as reported in the fund financial statements:

<u>Transfers from General fund to:</u>	<u>Amount</u>
Nonmajor governmental funds	\$ 6,000

Transfers are used to move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them and to use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. Transfers between governmental funds are eliminated on the statement of activities.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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 2006 represents collections of calendar year 2005 taxes. Real property taxes received in calendar year 2006 were levied after April 1, 2005, on the assessed value listed as of January 1, 2005, 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.

Public utility property tax revenue received in calendar 2006 represents collections of calendar year 2005 taxes. Public utility real and tangible personal property taxes received in calendar year 2005 became a lien December 31, 2004, were levied after April 1, 2005 and are collected in 2006 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 2006 (other than public utility property) represents the collection of 2006 taxes. Tangible personal property taxes received in calendar year 2006 were levied after April 1, 2005, on the value as of January 1, 2005. In prior years, tangible personal property assessments were twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. Tangible personal property tax is being phased out - the assessment percentage for property, including inventory, is 18.75% for 2006. This percentage will be reduced to 12.5% for 2007, 6.25% for 2008, and zero for 2009.

House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phases out the tax on tangible personal property of general businesses, telephone and telecommunications companies, and railroads. The tax on general business and railroad property will be eliminated by calendar year 2009, and the tax on telephone and telecommunications property will be eliminated by calendar year 2011. The tax is phased out by reducing the assessment rate on the property each year. The bill replaces the revenue lost by the District due to the phasing out of the tax. In calendar years 2006-2010, the District will be fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements will be phased out.

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, 2006, are available to finance fiscal year 2006 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, 2006 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 6 - PROPERTY TAXES - (Continued)

The amount available as an advance at June 30, 2006 was \$4,207 in the general fund. This amount has been recorded as revenue. The amount available as an advance at June 30, 2005 was \$4,559 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 2006 taxes were collected are:

	2005 Second Half Collections		2006 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 46,246,100	91.20	\$ 51,930,280	93.28
Public utility personal property	1,799,660	3.55	1,426,300	2.56
Tangible personal property	<u>2,660,761</u>	<u>5.25</u>	<u>2,313,689</u>	<u>4.16</u>
Total	<u>\$ 50,706,521</u>	<u>100.00</u>	<u>\$ 55,670,269</u>	<u>100.00</u>

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

General operations	\$ 48.40	\$ 48.15
Bonded debt	3.40	3.10
Permanent improvement	2.00	2.00

NOTE 7 - RECEIVABLES

Receivables at June 30, 2006 consisted of taxes, accounts, and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the Statement of Net Assets follows:

Governmental Activities

Taxes	\$ 1,666,148
Accounts	2,806
Intergovernmental	<u>14,373</u>
Total	<u>\$ 1,683,327</u>

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 8 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2006 was as follows:

<u>Governmental Activities</u>	<u>Balance</u> 06/30/05	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> 06/30/06
<i>Capital assets, not being depreciated:</i>				
Land	\$ 311,600	\$ -	\$ -	\$ 311,600
<i>Total capital assets, not being depreciated</i>	<u>311,600</u>	<u>-</u>	<u>-</u>	<u>311,600</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	524,008	-	-	524,008
Buildings and improvements	19,922,204	-	-	19,922,204
Equipment and furniture	499,725	8,109	-	507,834
Vehicles	231,318	-	-	231,318
<i>Total capital assets, being depreciated</i>	<u>21,177,255</u>	<u>8,109</u>	<u>-</u>	<u>21,185,364</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(95,333)	(24,674)	-	(120,007)
Buildings and improvements	(3,218,516)	(593,731)	-	(3,812,247)
Equipment and furniture	(171,631)	(75,365)	-	(246,996)
Vehicles	(205,185)	(7,467)	-	(212,652)
<i>Total accumulated depreciation</i>	<u>(3,690,665)</u>	<u>(701,237)</u>	<u>-</u>	<u>(4,391,902)</u>
Total capital assets, net	<u>\$ 17,798,190</u>	<u>\$ (693,128)</u>	<u>\$ -</u>	<u>\$ 17,105,062</u>

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 657,660
<u>Support Services:</u>	
Board of education	3,309
Administration	23,444
Fiscal	1,114
Operations and maintenance	2,318
Pupil transportation	7,467
Central	2,332
Extracurricular activities	495
Food service operations	<u>3,098</u>
Total depreciation expense	<u>\$ 701,237</u>

**MCDONALD LOCAL SCHOOL DISTRICT
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NOTE 9 - CAPITAL LEASE-LESSEE DISCLOSURE

On June 1, 2004, the District entered into a lease for copier equipment. This lease agreement meets the criteria of capital lease as defined by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the General Fund in the financial statements for the governmental funds. These expenditures are reported as function expenditures in the General fund on the budgetary statements.

Capital assets consisting of equipment have been capitalized in the amount of \$93,771. This amount represents the present value of the minimum lease payments at the time of acquisition. Accumulated depreciation as of June 30, 2006 was \$37,508 and the book value was \$56,263. A corresponding liability is recorded in the government-wide financial statements. Principal payments in fiscal year 2006 totaled \$21,231. There are no interest payments, as this capital lease is an interest-free lease.

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2006:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2007	\$ 21,231
2008	21,231
2009	<u>8,847</u>
Total minimum lease payments	51,309
Less: amount representing interest	<u>-</u>
Total	<u>\$ 51,309</u>

NOTE 10 - 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 11.A. The source of revenue to fund the principal and interest payments is derived from general operating revenues of the District. During fiscal year 2006, the District made \$79,421 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, 2006.

The following is a schedule of the future lease payments required under the lease purchase agreement as of June 30, 2006.

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 82,065	\$ 4,247	\$ 86,312
2008	<u>84,798</u>	<u>1,514</u>	<u>86,312</u>
Total	<u>\$ 166,863</u>	<u>\$ 5,761</u>	<u>\$ 172,624</u>

**MCDONALD LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 10 - LEASE PURCHASE AGREEMENT - (Continued)

- 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. During fiscal year 2006, the District made \$21,925 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 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, 2006.

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 23,409	\$ 2,479	\$ 25,888
2008	<u>24,991</u>	<u>897</u>	<u>25,888</u>
Total	<u>\$ 48,400</u>	<u>\$ 3,376</u>	<u>\$ 51,776</u>

NOTE 11 - 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, 2006, the total cost of the Construction Project was \$18,659,977, of which OSFC paid \$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, 2005 was \$4,000. A total of \$22,135 in accreted interest at June 30, 2005. 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:

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

<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.

During fiscal year 2006, the District made a \$65,000 principal payment on the current interest bonds then refunded the callable portion (\$1,290,000) of the current interest bonds (see Note 10.B). The following is a schedule of activity for fiscal 2006 on the 2001 series general obligation bonds:

<u>General obligation bonds</u>	<u>Balance Outstanding 06/30/05</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance Outstanding 06/30/06</u>	<u>Amounts Due in One Year</u>
Current interest bonds	\$ 1,660,000	\$ -	\$ (1,355,000)	\$ 305,000	\$ 70,000
Capital appreciation bonds	4,000	-	-	4,000	-
Accreted interest	22,135	5,031	-	27,166	-
Total	<u>\$ 1,686,135</u>	<u>\$ 5,031</u>	<u>\$ (1,355,000)</u>	<u>\$ 336,166</u>	<u>\$ 70,000</u>

The following is a summary of the future debt service requirements to maturity for the 2001 general obligation bonds:

<u>Fiscal Year Ending June 30</u>	<u>Current Interest Bonds</u>			<u>Capital Appreciation Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 70,000	\$ 93,920	\$ 163,920	\$ -	\$ -	\$ -
2008	75,000	90,210	165,210	-	-	-
2009	80,000	86,160	166,160	-	-	-
2010	80,000	81,800	161,800	-	-	-
2011	-	-	-	2,339	82,661	85,000
2012	-	-	-	1,661	83,339	85,000
Total	<u>\$ 305,000</u>	<u>\$ 352,090</u>	<u>\$ 657,090</u>	<u>\$ 4,000</u>	<u>\$ 166,000</u>	<u>\$ 170,000</u>

- B.** On May 31, 2006, the District issued general obligation bonds (Series 2006 Refunding Bonds) to advance refund a portion of the Series 2001 Current Interest General Obligation Bonds (principal \$1,290,000). The issuance proceeds of \$1,289,997 were used to purchase securities which were placed in an irrevocable trust to provide resources for all future debt service payments on the refunded debt. This refunded debt is considered defeased (in-substance) and accordingly, has been removed from the statement of net assets.

**MCDONALD LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

The refunding issue is comprised of both current interest bonds, par value \$1,205,000, and capital appreciation bonds, par value \$420,000. The capital appreciation bonds mature December 1, 2017, December 1, 2018, and December 1, 2019 at a redemption price equal to 100% of the principal, plus accreted interest to the redemption date. The present value (as of issue date) reported on the statement of net assets at June 30, 2006 was \$84,997. Total accreted interest of \$2,614 has been included in the statement of activities.

The reacquisition price exceeded the net carrying amount of the old debt by \$92,288. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is equal to the life of the new debt issued. This advance refunding was undertaken to reduce total debt service payments over the next nineteen years by \$102,044, resulting in an economic gain of \$76,809.

The following is a schedule of activity for fiscal 2006 on the 2006 series general obligation bonds:

<u>General obligation bonds</u>	Balance Outstanding <u>06/30/05</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>06/30/06</u>	Amounts Due in <u>One Year</u>
Current interest bonds	\$ -	\$ 1,205,000	\$ -	\$ 1,205,000	\$ 10,000
Capital appreciation bonds	-	84,997	-	84,997	-
Accreted interest	-	2,614	-	2,614	-
Total	<u>\$ -</u>	<u>\$ 1,292,611</u>	<u>\$ -</u>	<u>\$ 1,292,611</u>	<u>\$ 10,000</u>

The following is a summary of the future debt service requirements to maturity for the 2006 series refunding bonds:

<u>Fiscal Year Ending June 30</u>	<u>Current Interest Bonds</u>			<u>Capital Appreciation Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 10,000	\$ 21,826	\$ 31,826	\$ -	\$ -	\$ -
2008	25,000	46,680	71,680	-	-	-
2009	25,000	45,755	70,755	-	-	-
2010	25,000	44,830	69,830	-	-	-
2011	30,000	43,905	73,905	-	-	-
2012 - 2016	520,000	183,140	703,140	-	-	-
2017 - 2021	275,000	94,575	369,575	84,997	335,003	420,000
2022 - 2023	295,000	18,245	313,245	-	-	-
Total	<u>\$ 1,205,000</u>	<u>\$ 498,956</u>	<u>\$ 1,703,956</u>	<u>\$ 84,997</u>	<u>\$ 335,003</u>	<u>\$ 420,000</u>

**MCDONALD LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

C. During the year ended June 30, 2006, the following changes occurred in the long-term obligations.

<u>Governmental Activities</u>	<u>Balance at</u> <u>06/30/05</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at</u> <u>06/30/06</u>	<u>Amounts</u> <u>Due in</u> <u>One Year</u>
<u>General obligation bonds</u>					
Current interest bonds-series 2001	\$ 1,660,000	\$ -	\$ (1,355,000)	\$ 305,000	\$ 70,000
Capital appreciation bonds-series 2001	4,000	-	-	4,000	-
Accreted interest-series 2001	22,135	5,031	-	27,166	-
Current interest bonds-series 2006	-	1,205,000	-	1,205,000	10,000
Capital appreciation bonds-series 2006	-	84,997	-	84,997	-
Accreted interest-series 2006	-	<u>2,614</u>	-	<u>2,614</u>	-
Total general obligation bonds	<u>\$ 1,686,135</u>	<u>\$ 1,297,642</u>	<u>\$ (1,355,000)</u>	<u>\$ 1,628,777</u>	<u>\$ 80,000</u>
Lease purchase agreements	316,609	-	(101,346)	215,263	105,474
Capital lease obligation	72,540	-	(21,231)	51,309	21,231
Compensated absences	<u>427,883</u>	<u>18,568</u>	<u>(41,306)</u>	<u>405,145</u>	<u>18,150</u>
Total long-term obligations	<u>\$ 2,503,167</u>	<u>\$ 1,316,210</u>	<u>\$ (1,518,883)</u>	\$ 2,300,494	<u>\$ 224,855</u>
Unamortized premium on bonds				141,437	
Deferred loss on advance refunding				<u>(91,822)</u>	
Total governmental activities				<u>\$ 2,350,109</u>	

Principal and interest payments on the general obligation bonds are paid out of the Bond Retirement debt service fund. Principal and interest payments on the lease purchase agreements are paid out of the general fund. Compensated absences are paid out of the fund from which the employee is paid, primarily the general fund.

D. Legal Debt Margins

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, 2006 are a legal voted debt margin of \$3,422,799 and a legal unvoted debt margin of \$55,670.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 12 - 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 \$23,721,209 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 2005.

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 Sheakley Uniserve 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.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 12 - 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 13 - PENSION PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System (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 Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (800) 878-5853. It is also posted on SERS' website, www.ohsers.org, under Forms and Publications.

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The District's required contribution for pension obligations to SERS for fiscal years ended 2006, 2005, and 2004 were \$66,336, \$80,908, and \$74,288, respectively. 46.32 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004. \$35,612 represents the unpaid contribution for fiscal year 2006 and is recorded as a liability within the respective funds.

B. State Teachers Retirement System of Ohio

The District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 or by calling (614) 227-4090.

**MCDONALD LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 13 - 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 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The 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.

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The District's required contributions for fund pension obligations to the DB Plan for the fiscal years ended June 30, 2006, 2005, and 2004 were \$408,250, \$414,280, and \$385,991, respectively. 82.78 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004. \$70,304 represents the unpaid contribution for fiscal year 2006 and is recorded as a liability within the respective funds. Contributions to the DC and Combined Plans for fiscal year 2006 were \$3,049 made by the District and \$2,911 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS or the STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2006, certain members of the Board of Education have elected Social Security. The District's liability is 6.2% of wages paid.

**MCDONALD LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE 14 - POSTEMPLOYMENT BENEFITS

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

STRS Ohio retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$31,404 for fiscal year 2006.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006, the balance in the Health Care Stabilization Fund was \$3.5 billion. For the fiscal year ended June 30, 2006, net health care costs paid by STRS Ohio were \$282.743 million and STRS had 119,184 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. Premiums may be reduced for retirees whose household income falls below the poverty level.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, a decrease of 0.01 percent from fiscal year 2005. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2006 fiscal year, District paid \$32,956 to fund health care benefits, including the surcharge.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2006 were \$158.751 million. At June 30, 2006, SERS had net assets available for payment of health care benefits of \$295.6 million, which is about 221 percent of next years projected net health care costs. On the basis of actuarial projections, the allocated contributions will be insufficient in the long term, to provide for a health care reserve equal to at least 150 percent of estimated annual net claim costs. SERS has 59,492 participants currently receiving health care benefits.

NOTE 15 - 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.

**MCDONALD LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

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>	<u>Emergency Levy Fund</u>
Budget basis	\$ (472)	\$ -
Net adjustment for revenue accruals	30,901	-
Net adjustment for expenditure accruals	(23,356)	-
Net adjustment for other financing sources/uses	(31,253)	-
Adjustment for encumbrances	<u>1,612</u>	<u>-</u>
GAAP basis	<u>\$ (22,568)</u>	<u>\$ -</u>

NOTE 16 - 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 17 - 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, 2006, the reserve activity was as follows:

	<u>Instructional Materials</u>	<u>Capital Maintenance</u>
Set-aside balance as of June 30, 2005	\$ (66,188)	\$ 93,152
Current year set-aside requirement	132,352	132,352
Qualifying expenditures	<u>(97,895)</u>	<u>(264,015)</u>
Total	<u>\$ (31,731)</u>	<u>\$ (38,511)</u>
Balance carried forward to FY2007	<u>\$ (31,731)</u>	<u>\$ -</u>

The District had qualifying expenditures during the year that reduced the instructional materials set-aside amount below zero. The District can, and has chosen to, carry forward this excess amount in order to reduce the set-aside requirements of future years.

The District had qualifying expenditures during the year that reduced the capital maintenance set-aside amount below zero. The District cannot carry forward this excess amount in order to reduce the set-aside requirements of future years.

In addition to the above statutory reserves, the District also received monies restricted for school bus purchases.

A schedule of restricted assets at June 30, 2006 follows:

Amount restricted for school bus purchases	\$ <u>991</u>
Total	<u>\$ 991</u>



Mary Taylor, CPA

Auditor of State

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

McDonald Local School District
Trumbull County
600 Iowa Ave
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,, Trumbull County, Ohio, (the District) as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements and have issued our report thereon dated June 29, 2007. 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 to be material weaknesses. In a separate letter to the District's management dated June 29, 2007, 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 have a 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 such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. In a separate letter to the District's management dated June 29, 2007, we reported another matter 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 for the information and use of the audit committee, management, and Board of Education. It is not intended for anyone other than these specified parties.

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

Mary Taylor, CPA
Auditor of State

June 29, 2007



Mary Taylor, CPA
Auditor of State

McDONALD LOCAL SCHOOL DISTRICT

TRUMBULL COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
AUGUST 7, 2007**