



Dave Yost • Auditor of State

**MCDONALD LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

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

To the Board of Education:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the major fund and the aggregate remaining fund information of McDonald Local School District, Trumbull County, Ohio (the District), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of McDonald Local School District, Trumbull County, Ohio, as of June 30, 2016, and the respective changes in financial position thereof and the budgetary comparison for the General Fund thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 10, 2017, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Dave Yost
Auditor of State
Columbus, Ohio

April 10, 2017

McDonald Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
Unaudited

As management of the McDonald Local School District (the School District), we offer readers of the School District's financial statements this narrative and analysis of the financial activities of the School District for the fiscal year ended June 30, 2016. We encourage readers to consider the information presented here in conjunction with the financial statements and notes to the basic financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

- In total, net position increased due to an increase in operating and capital grants and grants not restricted. The increase in intergovernmental revenues is a result of the School District continuing to seek out additional sources of funding to ensure that the programs provided by the School District continue.
- Capital asset additions included improvements to the fence and visitor bleachers at the stadium, a new bus and equipment.
- Construction in progress as of June 30, 2016 consisted of improvements to the board of education parking lot and the gym bleachers.
- Outstanding long-term obligations increased during fiscal year 2016 due to increases in the net pension liability and compensated absences, which was offset by the School District's annual debt payments.
- The School District's assessed valuation showed an increase in fiscal year 2016.

Overview of the Financial Statements

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

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

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

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

The government-wide financial statement distinguishes functions of the School District that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from those that are primarily

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supported through user charges (*business-type activities*). The School District has no business-type activities. The governmental activities of the School District include instruction, support services, extracurricular activities, operation of non-instructional services and interest and fiscal charges.

Fund Financial Statements A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The School District, like the State and local governments, uses fund accounting to ensure and demonstrate compliance with financial-related legal requirements. These fund financial statements focus on the School District's most significant funds. The School District's major governmental fund is the general fund. All of the funds of the School District can be divided into two categories: governmental and fiduciary.

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

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

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

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. Table 1 provides a comparison of the School District's Net Position for 2016 compared to 2015.

McDonald Local School District
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Table 1
 Net Position
 Governmental Activities

	2016	2015	Change
Assets			
Current and Other Assets	\$8,538,343	\$6,692,543	\$1,845,800
Capital Assets, Net	11,423,698	11,635,078	(211,380)
<i>Total Assets</i>	<u>19,962,041</u>	<u>18,327,621</u>	<u>1,634,420</u>
Deferred Outflows of Resources			
Deferred Charge on Refunding	35,891	41,484	(5,593)
Pension	1,106,116	609,087	497,029
<i>Total Deferred Outflows of Resources</i>	<u>1,142,007</u>	<u>650,571</u>	<u>491,436</u>
Liabilities			
Current Liabilities	1,257,110	735,507	(521,603)
Long-Term Liabilities			
Due Within One Year	155,929	139,640	(16,289)
Due in More Than One Year			
Net Pension Liability	9,734,867	8,438,692	(1,296,175)
Other Amounts	1,119,545	1,153,537	33,992
<i>Total Liabilities</i>	<u>12,267,451</u>	<u>10,467,376</u>	<u>(1,800,075)</u>
Deferred Inflows of Resources			
Property Taxes	1,848,764	1,845,541	(3,223)
Pension	673,493	1,538,297	864,804
<i>Total Deferred Inflows of Resources</i>	<u>2,522,257</u>	<u>3,383,838</u>	<u>861,581</u>
Net Position			
Net Investment in Capital Assets	10,749,306	10,827,664	(78,358)
Restricted for:			
Capital Projects	128,972	405,593	(276,621)
Debt Service	146,371	158,043	(11,672)
Unclaimed Monies	21,725	21,725	0
Other Purposes	263,573	280,812	(17,239)
Unrestricted (Deficit)	(4,995,607)	(6,566,859)	1,571,252
<i>Total Net Position</i>	<u>\$6,314,340</u>	<u>\$5,126,978</u>	<u>\$1,187,362</u>

The net pension liability (NPL) is the largest single liability reported by the School District at June 30, 2016 and is reported pursuant to GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27." For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the School District's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability*.

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GASB 68 takes an earnings approach to pension accounting; however, the nature of Ohio's statewide pension systems and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

GASB 68 requires the net pension liability to equal the School District's proportionate share of each plan's collective:

1. Present value of estimated future pension benefits attributable to active and inactive employees' past service
- 2 Minus plan assets available to pay these benefits

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the School District is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required pension payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability is satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68, the School District's statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan's *change* in net pension liability not accounted for as deferred inflows/outflows.

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

Long-term liabilities increased during fiscal year 2016 due mainly to an increase in the net pension liability. Current liabilities increased due to the additional liability related to the OSFC closeout. These increases were slightly offset by the School District's annual debt payments on general obligation debt.

In order to further understand what makes up the changes in net position for the current year, the following table gives readers further details regarding the results of activities for 2016 and 2015.

McDonald Local School District
Management's Discussion and Analysis
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Unaudited

Table 2
Change in Net Position
Governmental Activities

	2016	2015	Change
Program Revenues			
Charges for Services and Sales	\$1,410,610	\$1,355,791	\$54,819
Operating Grants, Contributions and Interest	980,644	889,509	91,135
Capital Grants	13,748	6,841	6,907
<i>Total Program Revenues</i>	<u>2,405,002</u>	<u>2,252,141</u>	<u>152,861</u>
General Revenues			
Property Taxes	1,825,528	1,844,650	(19,122)
Grants and Entitlements	5,212,349	4,160,650	1,051,699
Investment Earnings	12,967	2,328	10,639
Miscellaneous	690	6,220	(5,530)
<i>Total General Revenues</i>	<u>7,051,534</u>	<u>6,013,848</u>	<u>1,037,686</u>
<i>Total Revenues</i>	<u>9,456,536</u>	<u>8,265,989</u>	<u>1,190,547</u>
Program Expenses			
Instruction:			
Regular	4,312,200	4,039,809	(272,391)
Special	1,055,896	989,926	(65,970)
Vocational	32,615	31,803	(812)
Student Intervention Services	0	9,967	9,967
Support Services			
Pupils	183,360	230,040	46,680
Instructional Staff	16,731	10,578	(6,153)
Board of Education	35,157	47,367	12,210
Administration	559,707	506,914	(52,793)
Fiscal	171,316	156,166	(15,150)
Operation and Maintenance of Plant	699,299	677,176	(22,123)
Pupil Transportation	119,194	135,477	16,283
Central	57,084	50,538	(6,546)
Operation of Non-Instructional Services	50,402	31,410	(18,992)
Operation of Food Service	119,140	107,235	(11,905)
Extracurricular Activities	264,463	242,482	(21,981)
Intergovernmental	533,108	0	(533,108)
Interest and Fiscal Charges	59,502	63,046	3,544
<i>Total Program Expenses</i>	<u>8,269,174</u>	<u>7,329,934</u>	<u>(939,240)</u>
<i>Change in Net Position</i>	1,187,362	936,055	251,307
Net Position Beginning of Year	<u>5,126,978</u>	<u>4,190,923</u>	<u>936,055</u>
Net Position End of Year	<u>\$6,314,340</u>	<u>\$5,126,978</u>	<u>\$1,187,362</u>

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

Program expenses increased mainly due to increases in instruction costs. Higher instruction costs can be attributed to a decrease in students leaving for open enrollment options and excess cost tuition payments to other school districts. The increase in intergovernmental expenses is related to the liability for the OSFC closeout process.

The *statement of activities* shows the cost of program services and charges for services and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services for 2016 compared to 2015.

Table 3
 Total and Net Cost of Program Services
 Governmental Activities

	2016		2015	
	Total Cost of Service	Net Cost of Service	Total Cost of Service	Net Cost of Service
Instruction:				
Regular	\$4,312,200	\$3,068,456	\$4,039,809	\$2,839,099
Special	1,055,896	232,915	989,926	243,630
Vocational	32,615	31,211	31,803	31,262
Student Intervention Services	0	0	9,967	9,967
Support Services:				
Pupils	183,360	166,746	230,040	220,727
Instructional Staff	16,731	16,731	10,578	10,578
Board of Education	35,157	35,157	47,367	47,367
Administration	559,707	552,249	506,914	496,845
Fiscal	171,316	171,316	156,166	156,166
Operation and Maintenance of Plant	699,299	639,806	677,176	616,802
Pupil Transportation	119,194	119,194	135,477	135,477
Central	57,084	53,484	50,538	46,938
Operation of Non-Instructional Services	50,402	50,402	31,410	31,410
Operation of Food Service	119,140	(1,093)	107,235	879
Extracurricular Activities	264,463	134,988	242,482	127,600
Interest and Fiscal Charges	59,502	59,502	63,046	63,046
Total	\$7,736,066	\$5,331,064	\$7,329,934	\$5,077,793

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

Financial Analysis of the Government's Funds

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

McDonald Local School District
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General Fund Budgeting Highlights

The School District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant fund to be budgeted is the main operating fund of the School District, the general fund. During the course of fiscal year 2016, the School District amended its general fund budget numerous times. The School District uses site-based budgeting and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management.

For the general fund, the final budget basis revenue estimate was slightly higher than the original budget estimate. The change was mainly attributed to an increase in intergovernmental revenues as a better picture of actual receipts became apparent.

The final budget appropriations were higher than the original budget appropriations of the general fund. The change was attributed to increases in estimates for instructional activities and support services as a better picture of actual expenditures became apparent.

Capital Assets and Long-term Liabilities

Capital Assets

Table 4 shows fiscal 2016 values compared to fiscal 2015.

Table 4
 Capital Assets at June 30
 Governmental Activities

	2016	2015
Land	\$311,600	\$311,600
Construction in Progress	197,913	0
Land Improvements	316,630	228,833
Buildings and Improvements	10,293,070	10,892,413
Furniture and Fixtures	138,464	88,734
Vehicles	166,021	113,498
Total Capital Assets	\$11,423,698	\$11,635,078

The decrease in capital assets was due to the current year depreciation outpacing additional purchases. In fiscal year 2016, the School District's capital asset additions included visitor bleachers, a football fence addition, a new bus and equipment. For more information about the School District's capital assets, see Note 8 to the basic financial statements.

Long-Term Liabilities

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

McDonald Local School District
Management's Discussion and Analysis
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Table 5
Outstanding Long-term Obligations at June 30
Governmental Activities

	2016	2015
2006 School Improvement Bonds	\$931,476	\$1,033,136
Capital Leases	50,166	0
Special Termination Benefits	0	1,275
Compensated Absences	293,832	258,766
Net Pension Liability	9,734,867	8,438,692
Total	\$11,010,341	\$9,731,869

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

School District Outlook

Currently, the School District is financially strong and is forecast to remain strong over the next five years, however, the financial future of the School District will continue to face challenges. These challenges stem from issues that are local and at the State level.

The local challenges will continue to exist, as the School District must rely heavily on property taxes to fund its operations. The district has precious little tax base and it is mostly residential.

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

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

Contacting the School District's Financial Management

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

McDonald Local School District

Statement of Net Position

June 30, 2016

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$6,453,967
Intergovernmental Receivable	45,100
Inventory Held for Resale	767
Property Taxes Receivable	2,038,509
Nondepreciable Capital Assets	509,513
Depreciable Capital Assets, Net	<u>10,914,185</u>
<i>Total Assets</i>	<u>19,962,041</u>
Deferred Outflows of Resources	
Deferred Charge on Refunding Pension	35,891
	<u>1,106,116</u>
<i>Total Deferred Outflows of Resources</i>	<u>1,142,007</u>
Liabilities	
Accounts Payable	36,258
Accrued Wages and Benefits	554,193
Intergovernmental Payable	660,680
Matured Compensated Absences Payable	4,043
Accrued Interest Payable	1,936
Long-Term Liabilities:	
Due Within One Year	155,929
Due In More Than One Year	
Net Pension Liability (See Note 15)	9,734,867
Other Amounts	<u>1,119,545</u>
<i>Total Liabilities</i>	<u>12,267,451</u>
Deferred Inflows of Resources	
Property Taxes	1,848,764
Pension	<u>673,493</u>
<i>Total Deferred Outflows of Resources</i>	<u>2,522,257</u>
Net Position	
Net Investment in Capital Assets	10,749,306
Restricted for:	
Capital Projects	128,972
Debt Service	146,371
Unclaimed Monies	21,725
Other Purposes	263,573
Unrestricted (Deficit)	<u>(4,995,607)</u>
<i>Total Net Position</i>	<u><u>\$6,314,340</u></u>

See accompanying notes to the basic financial statements

McDonald Local School District
Statement of Activities
For the Fiscal Year Ended June 30, 2016

	Program Revenues			Capital Grants	Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services and Sales	Operating Grants Contributions and Interest		
Governmental Activities					
Instruction:					
Regular	\$4,312,200	\$1,223,708	\$20,036	\$0	(\$3,068,456)
Special	1,055,896	0	822,981	0	(232,915)
Vocational	32,615	0	1,404	0	(31,211)
Support Services:					
Pupils	183,360	0	16,614	0	(166,746)
Instructional Staff	16,731	0	0	0	(16,731)
Board of Education	35,157	0	0	0	(35,157)
Administration	559,707	7,458	0	0	(552,249)
Fiscal	171,316	0	0	0	(171,316)
Operation and Maintenance of Plant	699,299	16,275	29,470	13,748	(639,806)
Pupil Transportation	119,194	0	0	0	(119,194)
Central	57,084	0	3,600	0	(53,484)
Operation of Non-Instructional Services	50,402	0	0	0	(50,402)
Operation of Food Service	119,140	35,843	84,390	0	1,093
Extracurricular Activities	264,463	127,326	2,149	0	(134,988)
Intergovernmental	533,108	0	0	0	(533,108)
Interest and Fiscal Charges	59,502	0	0	0	(59,502)
Totals	\$8,269,174	\$1,410,610	\$980,644	\$13,748	(5,864,172)
General Revenues					
Property Taxes Levied for:					
General Purposes					1,464,803
Debt Service					121,196
Capital Outlay					220,928
Classroom Facilities Maintenance					18,601
Grants and Entitlements not Restricted to Specific Programs					5,212,349
Investment Earnings					12,967
Miscellaneous					690
Total General Revenues					7,051,534
Change in Net Position					1,187,362
Net Position Beginning of Year					5,126,978
Net Position End of Year					\$6,314,340

See accompanying notes to the basic financial statements

McDonald Local School District

Balance Sheet

Governmental Funds

June 30, 2016

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets			
Equity in Pooled Cash and Cash Equivalents	\$5,721,239	\$711,003	\$6,432,242
Restricted Assets:			
Equity in Pooled Cash and Cash Equivalents	21,725	0	21,725
Intergovernmental Receivable	7,472	37,628	45,100
Interfund Receivable	4,754	0	4,754
Inventory Held for Resale	0	767	767
Property Taxes Receivable	1,650,642	387,867	2,038,509
<i>Total Assets</i>	<u>\$7,405,832</u>	<u>\$1,137,265</u>	<u>\$8,543,097</u>
Liabilities			
Accounts Payable	\$16,356	\$19,902	\$36,258
Accrued Wages and Benefits	533,517	20,676	554,193
Interfund Payable	0	4,754	4,754
Matured Compensated Absences Payable	0	4,043	4,043
Intergovernmental Payable	657,541	3,139	660,680
<i>Total Liabilities</i>	<u>1,207,414</u>	<u>52,514</u>	<u>1,259,928</u>
Deferred Inflows of Resources			
Property Taxes	1,497,133	351,631	1,848,764
Unavailable Revenue	152,666	52,658	205,324
<i>Total Deferred Inflows of Resources</i>	<u>1,649,799</u>	<u>404,289</u>	<u>2,054,088</u>
Fund Balances			
Nonspendable	21,725	0	21,725
Restricted	0	502,342	502,342
Committed	250	180,000	180,250
Assigned	18,832	0	18,832
Unassigned (Deficit)	4,507,812	(1,880)	4,505,932
<i>Total Fund Balances</i>	<u>4,548,619</u>	<u>680,462</u>	<u>5,229,081</u>
<i>Total Liabilities, Deferred Inflows of Resources and Fund Balances</i>	<u>\$7,405,832</u>	<u>\$1,137,265</u>	<u>\$8,543,097</u>

See accompanying notes to the basic financial statements

McDonald Local School District
*Reconciliation of Total Governmental Fund Balances to
 Net Position of Governmental Activities*
 June 30, 2016

Total Governmental Fund Balances	\$5,229,081
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*Amounts reported for governmental activities in the statement of
 net position are different because*

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	11,423,698
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Other long-term assets are not available to pay for current-period expenditures and therefore are reported as unavailable revenue in the funds.

Delinquent Property Taxes	188,703
Intergovernmental	<u>16,621</u>

Total	205,324
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In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	(1,936)
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The net pension liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in governmental funds.

Deferred Outflows - Pension	1,106,116
Deferred Inflows - Pension	(673,493)
Net Pension Liability	<u>(9,734,867)</u>

Total	(9,302,244)
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Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.

General Obligation Bonds	(931,476)
Capital Leases	(50,166)
Compensated Absences	(293,832)
Deferred Charge on Refunding	<u>35,891</u>

Total	<u>(1,239,583)</u>
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<i>Net Position of Governmental Activities</i>	<u><u>\$6,314,340</u></u>
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See accompanying notes to the basic financial statements

McDonald Local School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2016

	General	Other Governmental Funds	Total Governmental Funds
Revenues			
Property Taxes	\$1,493,920	\$352,617	\$1,846,537
Intergovernmental	5,647,981	532,819	6,180,800
Interest	12,967	51	13,018
Tuition and Fees	1,223,708	0	1,223,708
Extracurricular Activities	7,458	72,089	79,547
Contributions and Donations	0	18,763	18,763
Charges for Services	55,237	35,843	91,080
Rentals	16,275	0	16,275
Miscellaneous	76	614	690
<i>Total Revenues</i>	<u>8,457,622</u>	<u>1,012,796</u>	<u>9,470,418</u>
Expenditures			
Current:			
Instruction:			
Regular	3,637,080	21,624	3,658,704
Special	688,299	345,683	1,033,982
Vocational	32,880	0	32,880
Support Services:			
Pupils	176,488	8,000	184,488
Instructional Staff	16,731	0	16,731
Board of Education	35,157	0	35,157
Administration	546,117	8,587	554,704
Fiscal	168,943	2,640	171,583
Operation and Maintenance of Plant	664,426	53,094	717,520
Pupil Transportation	92,716	438	93,154
Central	54,559	3,650	58,209
Operation of Non-Instructional Services	50,163	239	50,402
Operation of Food Service	0	120,845	120,845
Extracurricular Activities	166,720	90,675	257,395
Capital Outlay	0	511,297	511,297
Intergovernmental	533,108	0	533,108
Debt Service:			
Principal Retirement	733	130,000	130,733
Interest and Fiscal Charges	248	25,738	25,986
<i>Total Expenditures</i>	<u>6,864,368</u>	<u>1,322,510</u>	<u>8,186,878</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>1,593,254</u>	<u>(309,714)</u>	<u>1,283,540</u>
Other Financing Sources (Uses)			
Inception of Capital Lease	50,899	0	50,899
Transfers In	0	189,500	189,500
Transfers Out	(189,500)	0	(189,500)
<i>Total Other Financing Sources (Uses)</i>	<u>(138,601)</u>	<u>189,500</u>	<u>50,899</u>
<i>Net Change in Fund Balances</i>	1,454,653	(120,214)	1,334,439
<i>Fund Balances Beginning of Year</i>	<u>3,093,966</u>	<u>800,676</u>	<u>3,894,642</u>
<i>Fund Balances End of Year</i>	<u>\$4,548,619</u>	<u>\$680,462</u>	<u>\$5,229,081</u>

See accompanying notes to the basic financial statements

McDonald Local School District
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2016*

Net Change in Fund Balances - Total Governmental Funds \$1,334,439

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.

Capital Asset Additions	465,949	
Current Year Depreciation	<u>(677,329)</u>	
Total		(211,380)

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

Delinquent Property Taxes	(21,009)	
Intergovernmental	<u>7,127</u>	
Total		(13,882)

Repayment of bond and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 130,733

Other financing sources in the governmental funds, such as inception of capital lease, increase long-term liabilities in the statement of net assets. (50,899)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Accrued Interest	417	
Amortization of Accretion	(36,955)	
Amortization of Premium	8,615	
Amortization of Accounting Loss	<u>(5,593)</u>	
Total		(33,516)

Contractually required contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows. 557,442

Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities. (491,784)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Compensated Absences	(35,066)	
Special Termination Benefits	<u>1,275</u>	
Total		<u>(33,791)</u>

Change in Net Position of Governmental Activities \$1,187,362

See accompanying notes to the basic financial statements

McDonald Local School District
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2016

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Property Taxes	\$1,719,133	\$1,496,480	\$1,496,480	\$0
Intergovernmental	5,244,716	5,643,500	5,647,228	3,728
Interest	3,929	12,328	12,967	639
Tuition and Fees	1,331,300	1,223,662	1,223,708	46
Charges for Services	11,854	56,325	59,932	3,607
Rentals	15,734	16,275	16,275	0
Miscellaneous	9	76	76	0
<i>Total Revenues</i>	8,326,675	8,448,646	8,456,666	8,020
Expenditures				
Current:				
Instruction:				
Regular	3,783,670	3,979,936	3,617,859	362,077
Special	631,377	682,882	672,418	10,464
Vocational	35,293	33,651	32,806	845
Support Services:				
Pupils	188,724	188,456	183,732	4,724
Instructional Staff	18,925	16,906	17,224	(318)
Board of Education	25,767	46,809	44,346	2,463
Administration	545,524	525,800	516,509	9,291
Fiscal	134,929	169,257	168,407	850
Operation and Maintenance of Plant	412,444	673,838	671,799	2,039
Pupil Transportation	81,148	97,140	97,355	(215)
Central	36,583	60,564	54,207	6,357
Operation of Non-Instructional Services	17,201	49,490	50,163	(673)
Extracurricular Activities	175,965	161,697	167,082	(5,385)
<i>Total Expenditures</i>	6,087,550	6,686,426	6,293,907	392,519
<i>Excess of Revenues Over (Under) Expenditures</i>	2,239,125	1,762,220	2,162,759	400,539
Other Financing Sources (Uses)				
Advances In	5,652	0	0	0
Transfers Out	(230,180)	(190,180)	(189,500)	680
<i>Total Other Financing Sources (Uses)</i>	(224,528)	(190,180)	(189,500)	680
<i>Net Change in Fund Balance</i>	2,014,597	1,572,040	1,973,259	401,219
<i>Fund Balance Beginning of Year</i>	3,738,003	3,738,003	3,738,003	0
Prior Year Encumbrances Appropriated	16,774	16,774	16,774	0
<i>Fund Balance End of Year</i>	\$5,769,374	\$5,326,817	\$5,728,036	\$401,219

See accompanying notes to the basic financial statements

McDonald Local School District
Statement of Fiduciary Assets and Liabilities
Agency Fund
June 30, 2016

Assets

Equity in Pooled Cash and Cash Equivalents	<u><u>\$45,272</u></u>
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Liabilities

Due to Students	<u><u>\$45,272</u></u>
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See accompanying notes to the basic financial statements

McDonald Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Note 1 - Description of the School District and Reporting Entity

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

The School District serves an area of approximately 3 square miles in Trumbull County, including the Village of McDonald and portions of surrounding townships. The School District operates one elementary school and one comprehensive middle/high school. It is staffed by 56 certified and 14 classified personnel to provide services to 901 students and other community members.

Reporting Entity

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

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

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

Note 2 - Summary of Significant Accounting Policies

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

Basis of Presentation

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

McDonald Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

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

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

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

Fund Accounting

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

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

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

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

Fiduciary Funds Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the School District

McDonald Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

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

Measurement Focus

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

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

Basis of Accounting

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

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

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

McDonald Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

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

Deferred Outflows/Inflows of Resources In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the School District, deferred outflows of resources are reported on the government-wide statement of net position for deferred charges on refunding and for pension. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The deferred outflows of resources related to pension are explained in Note 15.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized until that time. For the School District, deferred inflows of resources include property taxes, pension and unavailable revenue. Property taxes represent amounts for which there is an enforceable legal claim as of June 30, 2016, but which were levied to finance fiscal year 2017 operations. These amounts have been recorded as a deferred inflow on both the government-wide statement of net position and governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the School District, unavailable revenue includes delinquent property taxes and intergovernmental grants. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. The details of these unavailable revenues are identified on the Reconciliation of Total Governmental Fund Balance to Net Position of Governmental Activities found on page 17. Deferred inflows of resources related to pension are reported on the government-wide statement of net position. (See Note 15)

Expenses/Expenditures On the accrual basis of accounting, expenses are recognized at the time they are incurred.

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

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

Budgetary Data

All funds, other than agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend

McDonald Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

resources and set annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of control has been established by the Board of Education at the fund level for all funds. The Treasurer has been given the authority to allocate board appropriations to the function and object levels within each fund.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported as the original and final budgeted amounts in the budgetary statements reflect the amounts in the amended certificate when the original and final appropriations were passed by the Board of Education. Prior to June 30, the Board requested and received an amended certificate in which estimated revenue closely match actual revenue for the fiscal year.

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

Cash and Cash Equivalents

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

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2016 amounted to \$12,967, which includes \$1,383 assigned from other School District funds.

Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are presented on the financial statements as cash equivalents.

During fiscal year 2016, the School District invested in STAR Ohio. STAR Ohio (the State Treasury Asset Reserve of 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 has adopted Governmental Accounting Standards Board (GASB), Statement No. 79, "Certain External Investment Pools and Pool Participants." The School District measures their investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value.

For the fiscal year 2016, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$50 million, requiring the excess amount to be transacted the following business day(s), but only to the \$50 million limit. All accounts of the participant will be combined for these purposes.

McDonald Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Inventory

Inventories are presented at cost on a first-in, first-out basis and are expended/expensed when used. Inventory consists of expendable supplies and donated and purchased food held for resale.

Restricted Assets

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

Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The School District was able to estimate the historical cost for the initial reporting of assets by backtrending (i.e., estimating the current replacement cost of the asset to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year.) Donated capital assets are recorded at their acquisition values as of the date received. The School District maintains a capitalization threshold of five thousand dollars. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

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

Description	Governmental Activities Estimated Lives
Land Improvements	20 years
Building and Improvements	20 - 50 years
Equipment and Furniture	5 - 20 years
Vehicles	8 years

Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means. The School District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the School District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the School District's

McDonald Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

termination policy. The School District records a liability for accumulated unused sick leave for all employees at least 50 years of age with 10 years of service and all employees at any age with 20 years of service.

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

On the governmental fund financial statements, compensated absences are recognized as a liability and expenditure to the extent payments come due each period upon occurrence of employee resignations and retirements. These amounts are recorded in the account "Matured Compensated Absences Payable" in the fund from which the employee who has accumulated unpaid leave is paid.

Accrued Liabilities and Long-term Obligations

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

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

Fund Balance

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

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

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

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

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

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For the Fiscal Year Ended June 30, 2016

Unassigned Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

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

Net Position

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

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

Deferred Charge on Refunding

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

Bond Premiums

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

Estimates

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

Note 3 - Budgetary Basis of Accounting

While the School District is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balance - Budget (Non-GAAP Basis) and

McDonald Local School District
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Actual for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are that:

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

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

Net Change in Fund Balance	
GAAP Basis	\$1,987,761
Revenue Accruals	(44,397)
Expenditure Accruals	41,756
Perspective Difference:	
Public School Support	2,149
Encumbrances	(14,010)
Budget Basis	\$1,973,259

Note 4 – Fund Balances

Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the School District is bound to observe constraints imposed upon the use of resources in the governmental funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

McDonald Local School District
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Fund Balances	General	Other Governmental Funds	Total
<i>Nonspendable</i>			
Unclaimed Monies	\$21,725	\$0	\$21,725
<i>Restricted for</i>			
Food Service Operations	0	16,400	16,400
Scholarships	0	49,303	49,303
Athletics	0	8,324	8,324
Classroom Facilities Maintenance	0	182,498	182,498
Instructional Services	0	1,017	1,017
Technology Improvements	0	1,637	1,637
Debt Service Payments	0	135,759	135,759
Capital Improvements	0	107,404	107,404
<i>Total Restricted</i>	0	502,342	502,342
<i>Committed to</i>			
Capital Projects	0	180,000	180,000
Employee Reimbursement	250	0	250
<i>Total Committed</i>	250	180,000	180,250
<i>Assigned to</i>			
Purchases on Order			
Materials and Supplies	12,437	0	12,437
Purchased Services	723	0	723
Administrative	5,672	0	5,672
<i>Total Assigned</i>	18,832	0	18,832
<i>Unassigned (Deficit)</i>	5,040,920	(1,880)	5,039,040
<i>Total Fund Balances</i>	\$5,081,727	\$680,462	\$5,762,189

Note 5 - Deposits and Investments

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

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

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

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories.

McDonald Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal governmental 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, and Government National Mortgage Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in securities listed above;
4. Bonds and other obligations of the State of Ohio;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2);
7. The State Treasurer's investment pool (STAR Ohio); and
8. Commercial paper and bankers acceptances if training requirements have been met.

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

Note 6 – Property Taxes

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

Property taxes include amounts levied against all real property and public utility property located in the School District. Real property tax revenues received in calendar year 2016 represents collections of calendar year 2015 taxes. Real property taxes received in calendar year 2016 were levied after April 1, 2015, on the assessed value listed as of January 1, 2015, the lien date. Assessed values for real property are established by State law at thirty-five percent of appraised market value. Real property are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

McDonald Local School District
Notes to the Basic Financial Statements
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Public utility property tax revenues received in calendar year 2016 represents collections of calendar year 2015 taxes. Public utility real and tangible personal property taxes received in calendar year 2015 become a lien December 31, 2014, were levied after April 1, 2015 and are collected in 2016 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.

The School District receives property taxes from Trumbull County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2016, are available to finance fiscal year 2016 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property and public utility property taxes which are measurable as of June 30, 2016 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 were levied to finance current fiscal year operations are reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred inflows of resources – property taxes. On the accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue while on the modified accrual basis the revenue has been reported as deferred inflows of resources – unavailable revenue.

The amount available as an advance at June 30, 2016 was \$843 in the general fund, \$11 in the classroom facilities special revenue fund, \$119 in the permanent improvement capital projects fund and \$69 in the bond retirement debt service fund. The amount available as an advance at June 30, 2015, was \$3,402 in the general fund, \$40 in the classroom facilities special revenue fund, \$220 in the permanent improvement capital projects fund and \$263 in the bond retirement debt service fund.

The assessed values upon which the fiscal year 2016 taxes were collected are:

	2015 Second Half Collections		2016 First Half Collections	
	Amount	Percent	Amount	Percent
Real Estate	\$50,718,900	97.05%	\$50,714,360	96.90%
Public Utility Personal	1,539,430	2.95	1,624,590	3.10
Total	\$52,258,330	100.00%	\$52,338,950	100.00%
Full Tax Rate per \$1,000 of assessed valuation	\$61.75		\$61.00	

Note 7 - Receivables

Receivables at June 30, 2016, consisted of taxes and intergovernmental monies. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. All receivables except property taxes are expected to be received within one year. Property taxes, although ultimately collectible, include some portion of delinquencies that will not be collected within one year.

McDonald Local School District
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For the Fiscal Year Ended June 30, 2016

The general fund had foundation adjustments in the amount of \$7,472. The title I and title VI-R special revenue funds had outstanding grant awards in the amount of \$35,811 and \$1,817, respectively.

Note 8 – Capital Assets

Capital asset activity for the fiscal year ended June 30, 2016, was as follows:

	Balance June 30, 2015	Additions	Deletions	Balance June 30, 2016
Nondepreciable Capital Assets				
Land	\$311,600	\$0	\$0	\$311,600
Construction in Progress	0	197,913	0	197,913
<i>Total Nondepreciable Capital Assets</i>	<u>311,600</u>	<u>197,913</u>	<u>0</u>	<u>509,513</u>
Depreciable Capital Assets				
Land Improvements	562,948	117,525	(7,785)	672,688
Buildings and Improvements	20,058,110	0	0	20,058,110
Equipment and Furniture	375,732	72,294	0	448,026
Vehicles	343,812	78,217	0	422,029
<i>Total at Historical Cost</i>	<u>21,340,602</u>	<u>268,036</u>	<u>(7,785)</u>	<u>21,600,853</u>
Less: Accumulated Depreciation				
Land Improvements	(334,115)	(29,728)	7,785	(356,058)
Buildings and Improvements	(9,165,697)	(599,343)	0	(9,765,040)
Equipment and Furniture	(286,998)	(22,564)	0	(309,562)
Vehicles	(230,314)	(25,694)	0	(256,008)
<i>Total Accumulated Depreciation</i>	<u>(10,017,124)</u>	<u>(677,329) *</u>	<u>7,785</u>	<u>(10,686,668)</u>
<i>Depreciable Capital Assets, Net of Accumulated Depreciation</i>	<u>11,323,478</u>	<u>(409,293)</u>	<u>0</u>	<u>10,914,185</u>
<i>Governmental Activities Capital Assets, Net</i>	<u>\$11,635,078</u>	<u>(\$211,380)</u>	<u>\$0</u>	<u>\$11,423,698</u>

* Depreciation expense was charged to governmental functions as follows:

Instruction	
Regular	\$622,093
Support Services	
Administration	12,265
Operation and Maintenance of Plant	13,731
Pupil Transportation	25,694
Operation of Food Service	3,440
Extracurricular Activities	106
Total Depreciation Expense	<u>\$677,329</u>

McDonald Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Note 9 – Long-Term Obligations

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

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

Changes in long-term obligations of the School District during fiscal year 2016 were as follows:

	Principal Outstanding June 30, 2015	Additions	Deductions	Principal Outstanding June 30, 2016	Amount Due in One Year
Governmental Activities					
General Obligation Bonds					
2006 School Improvement Bonds					
Current Interest Serial Bonds	\$265,000	\$0	(\$130,000)	\$135,000	\$135,000
Capital Appreciation Bonds	84,997	0	0	84,997	0
Accretion	184,238	36,955	0	221,193	0
Current Interest Term Bonds	435,000	0	0	435,000	0
Premium on Bonds	63,901	0	(8,615)	55,286	0
<i>Total General Obligation Bonds</i>	<u>1,033,136</u>	<u>36,955</u>	<u>(138,615)</u>	<u>931,476</u>	<u>135,000</u>
Other Long-term Obligations					
Net Pension Liability					
STRS	7,430,248	1,189,128	0	8,619,376	0
SERS	1,008,444	107,047	0	1,115,491	0
<i>Total Net Pension Liability</i>	<u>8,438,692</u>	<u>1,296,175</u>	<u>0</u>	<u>9,734,867</u>	<u>0</u>
Capital Leases	0	50,899	(733)	50,166	9,073
Special Termination Benefits	1,275	0	(1,275)	0	0
Compensated Absences	258,766	161,613	(126,547)	293,832	11,856
<i>Total Other Long-term Obligations</i>	<u>8,698,733</u>	<u>1,508,687</u>	<u>(128,555)</u>	<u>10,078,865</u>	<u>20,929</u>
<i>Total Governmental Activities Long-Term Liabilities</i>	<u>\$9,731,869</u>	<u>\$1,545,642</u>	<u>(\$267,170)</u>	<u>\$11,010,341</u>	<u>\$155,929</u>

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

The serial, term and capital appreciation bonds remained outstanding at June 30, 2016. The capital appreciation bonds were originally sold at a discount of \$335,003, which is being accreted annually until the point of maturity of the capital appreciation bonds, which is 2018 through 2020.

McDonald Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

The maturity amount of outstanding capital appreciation bonds at June 30, 2016 is \$420,000. The accretion recorded for 2016 was \$36,955, for a total outstanding bond liability of \$306,190 at June 30, 2016.

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

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

The capital lease will be paid out of the general fund. Special termination benefits were paid out of the general fund. Compensated absences will be paid from the general fund, the food service special revenue fund and the Title I special revenue fund. The School District pays obligations related to employee compensation from the fund benefiting from their service. See Note 15 for additional information related to the net pension liability.

The overall debt margin of the School District as of June 30, 2016, was \$4,191,268 with an unvoted debt margin of \$52,339. Principal and interest requirements to retire general obligation bonds and capital appreciation outstanding at June 30, 2016, are as follows:

Fiscal Year Ending June 30	General Obligation Bonds					
	Serial		Capital Appreciation		Term	
	Principal	Interest	Principal	Accretion	Principal	Interest
2017	\$135,000	\$2,700	\$0	\$0	\$0	\$17,835
2018	0	0	32,045	107,955	0	17,835
2019	0	0	28,176	111,824	0	17,835
2020	0	0	24,776	115,224	0	17,835
2021	0	0	0	0	140,000	14,965
2022 - 2023	0	0	0	0	295,000	12,198
Total	\$135,000	\$2,700	\$84,997	\$335,003	\$435,000	\$98,503

Note 10 – Accountability

At June 30, 2016, the reducing class size special revenue fund had a deficit fund balance of \$1,880. This fund deficit resulted from adjustments for accrued liabilities. The general fund is liable for any fund deficits and provides transfers when cash is required, rather than when accruals occur.

McDonald Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Note 11 - Interfund Transfers

The general fund made a transfer of \$180,000 to the district replacement capital projects fund to help provide funding for fiscal year 2016. The general fund transferred \$9,500 to the district managed student activity special revenue fund to help fund athletic events.

Note 12 - Jointly Governed Organizations

Northeast Ohio Management Information Network (NEOMIN) NEOMIN is a jointly governed organization among twenty-nine school districts and two educational service centers in Trumbull and Ashtabula Counties. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. Each of the districts supports NEOMIN based upon a per pupil charge. McDonald Local School District paid \$31,064 to NEOMIN during fiscal year 2016.

The Governing board consists of ten members: The Trumbull and Ashtabula County superintendents (permanent members), three superintendents from Ashtabula County participating school districts, three superintendents from Trumbull County participating school districts, the fiscal agent (or NEOMIN). The McDonald Local School District was not represented on the Governing Board during fiscal year 2016. The Board exercises total control over the operations of NEOMIN including budgeting, appropriating, contracting and designating management. The degree of control exercised by any participating school district is limited to its representation on the Governing Board. To obtain a copy of NEOMIN's financial statements, write to the Trumbull County Educational Service Center, 6000 Youngstown Warren Road, Niles, Ohio 44446.

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

Note 13 – Shared Risk Pool

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

McDonald Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Note 14 - Risk Management

Property and Liability

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The School District maintains comprehensive commercial insurance coverage through Ohio School Plan 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 \$1,000 and a comprehensive deductible of \$1,000.

Real property and contents are fully insured. Limits of insurance on real property and equipment are \$37,090,404 with a deductible of \$1,000.

The School District has earthquake and flood insurance policies. Limits on these policies are \$1,000,000 with a deductible of \$25,000.

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

Trumbull County Schools Employee Insurance Benefit Consortium

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

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

Worker's Compensation

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

McDonald Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Note 15 - Pension Plans

Net Pension Liability

The net pension liability reported on the statement of net position represents a liability to employees for pensions. Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net pension liability represents the School District's proportionate share of each pension plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan's fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

Ohio Revised Code limits the School District's obligation for this liability to annually required payments. The School District cannot control benefit terms or the manner in which pensions are financed; however, the School District does receive the benefit of employees' services in exchange for compensation including pension.

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

The proportionate share of each plan's unfunded benefits is presented as a long-term *net pension liability* on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in *intergovernmental payable* on both the accrual and modified accrual bases of accounting.

Plan Description - School Employees Retirement System (SERS)

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

McDonald Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Age and service requirements for retirement are as follows:

	Eligible to Retire on or before August 1, 2017 *	Eligible to Retire on or after August 1, 2017
Full Benefits	Any age with 30 years of service credit	Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit
Actuarially Reduced Benefits	Age 60 with 5 years of service credit Age 55 with 25 years of service credit	Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit

* Members with 25 years of service credit as of August 1, 2017, will be included in this plan.

Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on year of service; 2.2 percent for the first thirty years of service and 2.5 percent for years of service credit over 30. Final average salary is the average of the highest three years of salary.

One year after an effective benefit date, a benefit recipient is entitled to a three percent cost-of-living adjustment (COLA). This same COLA is added each year to the base benefit amount on the anniversary date of the benefit.

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2016, the allocation to pension, death benefits, and Medicare B was 14 percent. No allocation was made to the Health Care Fund.

The School District's contractually required contribution to SERS was \$96,626 for fiscal year 2016. Of this amount \$1,332 is reported as an intergovernmental payable.

Plan Description - State Teachers Retirement System (STRS)

Plan Description – School District licensed teachers and other faculty members participate in STRS Ohio, a cost-sharing multiple employer public employee retirement system administered by STRS. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS issues a stand-alone financial report that includes financial statements, required supplementary information, and detailed information about STRS' fiduciary net position. That report can be obtained by writing to STRS, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Web site at www.strsoh.org.

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan, and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307.

The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation is 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are

McDonald Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 25 years of service, or 30 years of service regardless of age. Age and service requirements for retirement will increase effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five year of service on August 1, 2026.

The DC Plan allows members to place all their member contributions and 9.5 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal.

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, 11 percent of the 12 percent member rate goes to the DC Plan and 1 percent goes to the DB Plan. Member contributions to the DC Plan are allocated among investment choices by the member, and contributions to the DB Plan from the employer and the member are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of services. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50.

New members who choose the DC plan or Combined Plan will have another opportunity to reselect a permanent plan during their fifth year of membership. Members may remain in the same plan or transfer to another STRS plan. The optional annuitization of a member's defined contribution account or the defined contribution portion of a member's Combined Plan account to a lifetime benefit results in STRS bearing the risk of investment gain or loss on the account. STRS has therefore included all three plan options as one defined benefit plan for GASB 68 reporting purposes.

A DB or Combined Plan member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least ten years of qualifying service credit that apply for disability benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For the fiscal year ended June 30, 2016, plan members were required to contribute 13 percent of their annual covered salary. Effective July 1, 2016, the statutory maximum employee contribution rate was increased one percent to 14 percent. The School District was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2016 contribution rates were equal to the statutory maximum rates.

The School District's contractually required contribution to STRS was \$460,383 for fiscal year 2016. Of this amount \$66,997 is reported as an intergovernmental payable.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School District's proportion of the net pension liability was based on the School District's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

McDonald Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the Net Pension Liability Prior Measurement Date	0.01992600%	0.03054766%	
Proportion of the Net Pension Liability Current Measurement Date	<u>0.01954910%</u>	<u>0.03118773%</u>	
Change in Proportionate Share	<u>-0.00037690%</u>	<u>0.00064007%</u>	
Proportionate Share of the Net Pension Liability	\$1,115,491	\$8,619,376	\$9,734,867
Pension Expense	\$65,391	\$426,393	\$491,784

At June 30, 2016, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred Outflows of Resources			
Differences between expected and actual experience	\$17,962	\$392,935	\$410,897
Changes in proportionate Share and difference between School District contributions and proportionate share of contributions	0	137,777	137,777
School District contributions subsequent to the measurement date	<u>97,059</u>	<u>460,383</u>	<u>557,442</u>
Total Deferred Outflows of Resources	<u>\$115,021</u>	<u>\$991,095</u>	<u>\$1,106,116</u>
Deferred Inflows of Resources			
Net difference between projected and actual earnings on pension plan investments	\$36,959	\$619,896	\$656,855
Changes in Proportionate Share and Difference between School District contributions and proportionate share of contributions	<u>16,638</u>	<u>0</u>	<u>16,638</u>
Total Deferred Inflows of Resources	<u>\$53,597</u>	<u>\$619,896</u>	<u>\$673,493</u>

\$557,442 reported as deferred outflows of resources related to pension resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Fiscal Year Ending June 30:			
2017	(\$18,737)	(\$105,446)	(\$124,183)
2018	(18,737)	(105,446)	(124,183)
2019	(18,822)	(105,446)	(124,268)
2020	<u>20,659</u>	<u>227,154</u>	<u>247,813</u>
Total	<u>(\$35,637)</u>	<u>(\$89,184)</u>	<u>(\$124,821)</u>

McDonald Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Actuarial Assumptions - SERS

SERS' total pension liability was determined by their actuaries in accordance with GASB Statement No. 67, as part of their annual actuarial valuation for each defined benefit retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment termination). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee's entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2015, are presented below:

Wage Inflation	3.25 percent
Future Salary Increases, including inflation	4.00 percent to 22 percent
COLA or Ad Hoc COLA	3 percent
Investment Rate of Return	7.75 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal

For post-retirement mortality, the table used in evaluating allowances to be paid is the 1994 Group Annuity Mortality Table set back one year for both men and women. Special mortality tables are used for the period after disability retirement.

The most recent experience study was completed June 30, 2010.

The long-term return expectation for the Pension Plan Investments has been determined using a building-block approach and assumes a time horizon, as defined in SERS' *Statement of Investment Policy*. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating an arithmetic weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalanced uncorrelated asset classes.

McDonald Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	1.00 %	0.00 %
US Stocks	22.50	5.00
Non-US Stocks	22.50	5.50
Fixed Income	19.00	1.50
Private Equity	10.00	10.00
Real Assets	10.00	5.00
Multi-Asset Strategies	15.00	7.50
Total	100.00 %	

Discount Rate The total pension liability was calculated using the discount rate of 7.75 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.75 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.75 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.75 percent), or one percentage point higher (8.75 percent) than the current rate.

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School District's proportionate share of the net pension liability	\$1,546,785	\$1,115,491	\$752,305

Changes Between Measurement Date and Report Date

In April 2016, the SERS Board adopted certain assumption changes which impacted their annual actuarial valuation prepared as of June 30, 2016. The most significant change is a reduction in the discount rate from 7.75 percent to 7.5 percent. Although the exact amount of these changes is not known, the impact to the School District's net pension liability is expected to be significant.

Actuarial Assumptions - STRS

The total pension liability in the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

McDonald Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Inflation	2.75 percent
Projected salary increases	12.25 percent at age 20 to 2.75 percent at age 70
Investment Rate of Return	7.75 percent, net of investment expenses
Cost-of-Living Adjustments (COLA)	2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, 2013, or later, 2 percent COLA commences on fifth anniversary of retirement date.

Mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males’ ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89, and no set back from age 90 and above.

Actuarial assumptions used in the June 30, 2015, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

STRS’ investment consultant develops best estimates for the investment return assumption based on the target allocation adopted by the Retirement Board. The target allocation and long-term expected rate of return for each major asset class are summarized as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>10 Year Expected Nominal Rate of Return *</u>
Domestic Equity	31.00 %	8.00 %
International Equity	26.00	7.85
Alternatives	14.00	8.00
Fixed Income	18.00	3.75
Real Estate	10.00	6.75
Liquidity Reserves	1.00	3.00
Total	<u>100.00 %</u>	

* 10 year annualized geometric nominal returns include the real rate of return and inflation of 2.5 percent.

Discount Rate The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2015. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS’ fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2015. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2015.

McDonald Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following table presents the School District's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.75 percent, as well as what the School District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.75 percent) or one-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School District's proportionate share of the net pension liability	\$11,972,964	\$8,619,376	\$5,783,418

Note 16 – Postemployment Benefits

School Employees Retirement System

Health Care Plan Description - The School District contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 45 purposes, this plan is considered a cost-sharing, multiple-employer, defined benefit other postemployment benefit (OPEB) plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans as well as a prescription drug program. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Health care is financed through a combination of employer contributions and retiree premiums, copays and deductibles on covered health care expenses, investment returns, and any funds received as a result of SERS' participation in Medicare programs. Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2016, no allocation of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2016, this amount was \$23,000. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2016, the School District's surcharge obligation was \$10,387.

The School District's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$0, \$794, and \$782, respectively. The full amount has been contributed for fiscal year 2014.

McDonald Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

State Teachers Retirement System

Plan Description – The State Teachers Retirement System of Ohio (STRS Ohio) administers a cost-sharing multiple-employer defined benefit Health Plan administered for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Ohio law authorizes STRS to offer this plan. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which can be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board discretionary authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Health Care Plan. Nearly all health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For the fiscal years ended June 30, 2016 and June 30, 2015, STRS Ohio did not allocate any employer contributions to post-employment health care. For the fiscal year ended June 30, 2014, one percent of covered payroll was allocated to post-employment health care. The School District's contributions for health care for the fiscal years ended June 30, 2016, 2015 and 2014 were \$0, \$0 and \$31,614, respectively. The full amount has been contributed for 2014.

Note 17 - Other Employee Benefits

Compensated Absences

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

Life Insurance Benefits

The School District provides life insurance to most employees through Voya Financial, in the amount of \$50,000 for all employees. Premiums are paid for by the Board of Education.

Note 18 – Contingencies

Grants

The School District received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, the effect of any such disallowed claims on the overall financial position of the School District at June 30, 2016, if applicable, cannot be determined at this time.

McDonald Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

School Foundation

School District Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for fiscal year 2015, traditional school districts must comply with minimum hours of instruction, instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the School District, which can extend past the fiscal year-end. As of the date of this report, ODE has not finalized the impact of enrollment adjustments to the June 30, 2016 Foundation funding for the school district; therefore, the financial statement impact is not determinable at this time. ODE and management believe this may result in either a receivable to or a liability of the School District.

Litigation

The School District is not party to legal proceedings as of June 30, 2016.

Note 19 - Set Asides

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

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

	<u>Capital Improvements</u>
Set-Aside Balance as of June 30, 2015	\$0
Current Year Set-aside Requirement	152,170
Offsets	(155,738)
Qualifying Disbursements	(3,984)
Total	(\$7,552)
Set-aside Balance Carried Forward to Future Fiscal Years	\$0
Set-aside Balance as of June 30, 2016	\$0

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

McDonald Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Note 20 - Encumbrances

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

Governmental Funds	
General	\$14,010
Other Governmental Funds	<u>146,230</u>
<i>Total Governmental Funds</i>	<u><u>\$160,240</u></u>

Note 21 – Change in Accounting Principle and Restatement of Net Position

For fiscal year 2016, the School District implemented Governmental Accounting Standards Board (GASB) Statement No. 72, “Fair Value Measurement and Application,” GASB Statement No. 76, “The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments,” GASB Statement No.79, “Certain External Investment Pools and Pool Participants,” and GASB Statement No. 82, “Pension Issues an Amendment of GASB Statements No. 67, No. 68 and No. 73.”

GASB Statement No. 72 addresses accounting and financial reporting issues related to fair value measurements. This Statement provides guidance for determining a fair value measurement for financial reporting purposes for applying fair value to certain investments and disclosures related to all fair value measurements. These changes were incorporated in the School District’s fiscal year 2016 financial statements; however, there was no effect on beginning net position/fund balance.

GASB Statement No. 76 identifies-in the context of the current governmental financial reporting environment-the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with generally accepted accounting principles (GAAP) and the framework for selecting those principles. The implementation of this GASB pronouncement did not result in any changes to the School District’s financial statements.

GASB Statement No. 79 establishes accounting and financial reporting standards for qualifying external investment pools that elect to measure for financial reporting purposes all of their investments at amortized cost. This Statement provides accounting and financial reporting guidance and also establishes additional note disclosure requirements for governments that participate in those pools. The School District participates in STAR Ohio which implemented GASB Statement No. 79 for fiscal year 2016. The School District incorporated the corresponding GASB 79 guidance into their fiscal year 2016 financial statements; however, there was no effect on beginning net position/fund balance.

GASB Statement No. 82 improves consistency in the application of pension accounting. These changes were incorporated in the School District’s fiscal year 2016 financial statements; however, there was no effect on beginning net position/fund balance.

McDonald Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Note 22 – Ohio School Facilities Project Liability

In prior years, the School District participated in the Ohio School Facilities Commission (OSFC) Classroom Facilities Assistance Program for construction and renovation of School District facilities. The School District has signed a Certificate of Completion of the Project Agreement with the Ohio Facilities Construction Commission (OFCC) for a project close-out. As of June 30, 2016, the School District anticipates the repayment of \$533,108 to the OSFC. As of the date of the financial statements, no payments have been made from the School District to the OFCC. See Subsequent Event Note 23 for further details.

Note 23 – Subsequent Event

Ohio School Facilities Project Closeout The School District has signed a Certificate of Completion of the Project Agreement with the Ohio Facilities Construction Commission (OFCC) for a project closeout. The agreement calls for repayment of funds to the OFCC as well as to other School District Funds to finalize the project (see Note 22). As of the date of the financial statements, the School District has closed out the Ohio School Facilities capital projects fund.

Required Supplementary Information

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McDonald Local School District, Ohio
Required Supplementary Information
Schedule of the School District's Proportionate Share of the
Net Pension Liability
School Employees Retirement System of Ohio
*Last Three Fiscal Years (1)**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
School District's Proportion of the Net Pension Liability	0.01954910%	0.01992600%	0.01992600%
School District's Proportionate Share of the Net Pension Liability	\$1,115,491	\$1,008,444	\$1,184,935
School District's Covered Payroll	\$590,281	\$558,511	\$520,069
School District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	188.98%	180.56%	227.84%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.16%	71.70%	65.52%

(1) Information prior to 2014 is not available.

* Amounts presented for each fiscal year were determined as of the School District's measurement date which is the prior fiscal year end.

McDonald Local School District, Ohio
Required Supplementary Information
Schedule of the School District's Proportionate Share of the
Net Pension Liability
State Teachers Retirement System of Ohio
*Last Three Fiscal Years (1) **

	2016	2015	2014
School District's Proportion of the Net Pension Liability	0.03118773%	0.03054766%	0.03054766%
School District's Proportionate Share of the Net Pension Liability	\$8,619,376	\$7,430,248	\$8,850,863
School District's Covered Payroll	\$3,222,664	\$3,148,557	\$2,893,669
School District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	267.46%	235.99%	305.87%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	72.10%	74.70%	69.30%

(1) Information prior to 2014 is not available.

* Amounts presented for each fiscal year were determined as of the School District's measurement date which is the prior fiscal year end.

McDonald Local School District, Ohio
Required Supplementary Information
Schedule of the School District's Contributions
School Employees Retirement System of Ohio
Last Ten Fiscal Years

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually Required Contribution	\$97,059	\$77,799	\$77,410	\$71,978
Contributions in Relation to the Contractually Required Contribution	<u>(97,059)</u>	<u>(77,799)</u>	<u>(77,410)</u>	<u>(71,978)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
School District Covered Payroll	\$693,279	\$590,279	\$558,511	\$520,069
Contributions as a Percentage of Covered Payroll	14.00%	13.18%	13.86%	13.84%

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$69,637	\$59,268	\$99,640	\$65,575	\$62,970	\$63,230
<u>(69,637)</u>	<u>(59,268)</u>	<u>(99,640)</u>	<u>(65,575)</u>	<u>(62,970)</u>	<u>(63,230)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
\$517,748	\$471,507	\$735,892	\$666,414	\$641,245	\$592,041
13.45%	12.57%	13.54%	9.84%	9.82%	10.68%

McDonald Local School District, Ohio
Required Supplementary Information
Schedule of the School District's Contributions
State Teachers Retirement System of Ohio
Last Ten Fiscal Years

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually Required Contribution	\$460,383	\$451,173	\$409,312	\$376,177
Contributions in Relation to the Contractually Required Contribution	<u>(460,383)</u>	<u>(451,173)</u>	<u>(409,312)</u>	<u>(376,177)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
School District Covered Payroll	\$3,288,450	\$3,222,664	\$3,148,557	\$2,893,669
Contributions as a Percentage of Covered Payroll	14.00%	14.00%	13.00%	13.00%

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$360,736	\$356,170	\$441,220	\$476,817	\$448,414	\$432,890
<u>(360,736)</u>	<u>(356,170)</u>	<u>(441,220)</u>	<u>(476,817)</u>	<u>(448,414)</u>	<u>(432,890)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
\$2,774,892	\$2,739,769	\$3,394,000	\$3,667,823	\$3,449,338	\$3,329,923
13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

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Dave Yost • Auditor of State

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

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

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of McDonald Local School District, Trumbull County, (the District) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated April 10, 2017.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

101 Central Plaza South, 700 Chase Tower, Canton, Ohio 44702-1509
Phone: 330-438-0617 or 800-443-9272 Fax: 330-471-0001

www.ohioauditor.gov

Purpose of this Report

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

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State
Columbus, Ohio

April 10, 2017



Dave Yost • Auditor of State

MCDONALD LOCAL SCHOOL DISTRICT

TRUMBULL COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JUNE 20, 2017**