



Dave Yost • Auditor of State

**McDonald Local School District
Trumbull County, Ohio**

Fiscal Emergency Termination

Local Government Services Section

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**McDonald Local School District
Trumbull County**

Fiscal Emergency Termination

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CERTIFICATION

Pursuant to a request submitted to the Auditor of State by the McDonald Local School District Financial Planning and Supervision Commission, the Auditor of State performed an analysis of the McDonald Local School District to determine whether the Commission and its functions under Chapter 3316 of the Ohio Revised Code should be terminated. Based on our analysis, the Auditor of State certifies that the McDonald Local School District no longer meets the fiscal emergency conditions set forth in Section 3316.03(B), Revised Code, that the objectives of the financial recovery plan are being met, that an effective financial accounting and reporting system in accordance with Section 3316.10 of the Revised Code is in the process of being implemented and it is reasonably expected that this implementation will be completed within two years, and that the Board of Education has prepared a financial forecast for a five-year period in accordance with the standards issued by the Auditor of State and an opinion has been rendered by the Auditor of State that the financial forecast is considered to be nonadverse. Therefore, the existence of the McDonald Local School District Financial Planning and Supervision Commission and its role in the operation of the McDonald Local School District is terminated as of February 28, 2012.

Accordingly, this report is hereby submitted to the McDonald Local School District Board of Education, the Financial Planning and Supervision Commission, John Kasich, Governor, Timothy S. Keen, Director of the Office of Budget and Management, Adrian S. Biviano, Trumbull County Auditor, and Stan W. Heffner, State Superintendent of Public Instruction.

At the time of termination of the Commission, an effective financial accounting and reporting system has not been fully implemented. Section 3316.16(E), Revised Code, requires that Auditor of State to monitor the progress of implementation and exercise authority under this section and Chapter 117, Revised Code, to secure full implementation within two years.

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DAVE YOST
Auditor of State

February 28, 2012

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McDonald Local School District – Trumbull County

Report on Termination of the McDonald Local School District Financial Planning and Supervision Commission

At the request of the Financial Planning and Supervision Commission of the McDonald Local School District (the Commission), Trumbull County, Ohio, as provided by Section 3316.16(B) of the Ohio Revised Code, the Auditor of State has performed an analysis to determine whether this Commission and its functions under Chapter 3316 of the Ohio Revised Code should be terminated.

The Declaration of Fiscal Emergency

On October 15, 2009, the Auditor of State certified an operating deficit in the amount of \$2,001,000 for the fiscal year ending June 30, 2010 for the McDonald Local School District. The Auditor of State declared the School District in Fiscal Emergency on October 15, 2009, due to a certified operating deficit of 32 percent of general fund revenue for fiscal year 2009. The state of Fiscal Emergency was declared under Section 3316.03(B)(1) of the Ohio Revised Code and a Financial Planning and Supervision Commission was created whose purpose is to direct the School District's return to financial stability.

Termination of Fiscal Emergency

Under Section 3316.16 of the Ohio Revised Code, a school district financial planning and supervision commission, once established, will continue in existence until the Auditor of State, or the commission itself, determines the following:

1. An effective financial accounting and reporting system is in the process of being implemented, and is expected to be completed within two years;
2. All of the fiscal emergency conditions have been corrected or eliminated, and no new emergency conditions have occurred;
3. The objectives of the financial recovery plan are being met; and,
4. The School District has prepared a financial forecast for a five-year period in accordance with standards issued by the Auditor of State, and such forecast is, in the Auditor's opinion, "nonadverse".

The results of the analysis performed by the Auditor of State to determine if each of these four conditions has been satisfied follows.

Section 1 – Financial Accounting and Reporting System

When a school district is placed in fiscal emergency, the Auditor of State is required to report on the effectiveness of the school district's financial accounting and reporting system. The Auditor of State, in accordance with Section 3316.10(A), Revised Code, assessed the methods, accuracy, and legality of the accounts, records, files, and reports of the McDonald Local School District and issued a Report on Accounting Methods, dated August 4, 2011. The report identified areas where the School District's financial accounting and reporting system was not in compliance with Section 117.43, Revised Code, and the requirements of the Auditor of State.

McDonald Local School District – Trumbull County

**Report on Termination of the McDonald Local School District
Financial Planning and Supervision Commission**

The criteria for termination of the Commission include a determination by the Auditor of State that an effective financial accounting and reporting system has been implemented, or is in the process of implementation and is expected to be completed within two years. This determination is based on management providing a summary of the actions taken to address the issues identified in the Financial Accounting Report. We confirmed whether the actions taken by management were sufficient to correct those issues identified in the Report on Accounting Methods. A summary of each area of noncompliance identified in the Report on Accounting Methods and the status of each corrective action is presented below:

Budgetary Process

Auditor of State Comment from Report on Accounting Methods:

- The School District should update its policy manual regarding its budgetary process. The manual should include policies that are designed to comply with Ohio Budgetary Law including the level at which the Board adopts appropriations and the nature of the control, approval and documentation for the initial allocation and subsequent re-allocations of appropriations of the Board. The policies should also require the Treasurer to report any occurrences of non-compliance with Ohio Budgetary Law and the corrective action needed or taken to prevent further occurrences as part of the Treasurer's monthly report to the Board.

Implemented:

The Board has a policy that details the level of control and who approves and documents the initial and subsequent re-allocations of the appropriations. The policy also requires the Treasurer to report any occurrences non-compliance with Ohio Budgetary Law, as well as corrective action needed to prevent further occurrences.

Auditor of State Comment from Report on Accounting Methods:

- The Board adopts appropriations, and at the same time, the Treasurer amends the certificate to support appropriations. Appropriations should be limited to the estimated resources reflected on the amended certificate at the time of adoption. Prior to appropriating the additional or new resources, the Treasurer should request an amended certificate based on reasonable estimates and/or actual receipts.

Implemented:

The Treasurer requests and receives an amended certificate when required by State statute. This certificate is then checked against all proposed appropriations to make sure they do not exceed the resources from the certificate for each fund. Once this comparison has been made, the Treasurer then presents the appropriations to the Board for adoption.

McDonald Local School District – Trumbull County

**Report on Termination of the McDonald Local School District
Financial Planning and Supervision Commission**

Auditor of State Comment from Report on Accounting Methods:

- The Board adopts permanent appropriations prior to meeting the statutory criteria for the adoption of permanent appropriations. Section 5705.38, Revised Code, indicates that annual appropriations should be adopted by October 1, provided an amended certificate of estimated resources or a certification that no amended certificate need be issued has been received from the county budget commission (Refer to Auditor of State bulletin 98-012). The Board has been approving permanent appropriations prior to receiving an amended certificate or a certification that no amended certificate is needed from the county budget commission. The Treasurer should determine if the statutory requirements have been met in order to adopt permanent appropriations.

Implemented:

Prior to October 1, the Treasurer requests and receives an amended certificate before making appropriations. After proposed appropriations are compared with the amended certificate to make sure they do not exceed the resources, they are presented to the Board for adoption.

Auditor of State Comment from Report on Accounting Methods:

- The Treasurer compares appropriations to estimated resources; however, this comparison is not documented. The Treasurer should document the comparison of appropriations to estimated resources. This comparison should be presented to the Board upon request for supplemental appropriations demonstrating the effect of the supplemental appropriations and compliance with budgetary requirements, if adopted.

Implemented:

The Treasurer prepares a document comparing beginning cash balances and the latest amended certificate against the latest amended appropriations and is presenting the document at each Board meeting.

Auditor of State Comment from Report on Accounting Methods:

- The estimated receipts and appropriations in the accounting system do not agree with the most current supporting documents for fiscal year 2010. The Treasurer should enter all estimated receipts and appropriations in the system and compare budgeted amounts in the accounting system to the current estimated receipts certified by the County Budget Commission and the appropriation measures as passed by the Board of Education to ensure that recorded amounts are accurate. The Treasurer should have evidence of the comparison being completed.

Implemented:

The Treasurer is now entering newly amended certificates upon receipt and newly amended appropriations upon adoption by the Board into the School District's accounting system. The Treasurer is then able to run reports off the system that tracks budgeted resources and appropriations, which compares them to actual year-to-date amounts to ensure that no violations are being created.

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**Report on Termination of the McDonald Local School District
Financial Planning and Supervision Commission**

Auditor of State Comment from Report on Accounting Methods:

- The School District presents supplemental appropriations to the Board in lump sum amounts. Supplemental appropriations presented to the Board for approval should identify changes in the appropriation amount rather than presenting the new appropriation as a lump sum.

Implemented:

The supplemental appropriations presented to the Board for approval identify changes in the appropriation amount as well as the updated appropriation amount in total.

Revenue Activity

Auditor of State Comment from Report on Accounting Methods:

- The School District does not have written procedures for the receipt and recording of revenues. Documented procedures for the receipt and recording of revenues should be prepared and shared with the respective buildings/departments involved in the receipt and processing of revenues. The procedures should be periodically reviewed and updated as necessary.

Implemented:

The School District has a written procedure for the receipt and recording of revenues and this procedure is shared with the respective buildings/departments involved in the receipt and processing of revenues, which will be reviewed and updated when needed.

Purchasing Process

Auditor of State Comment from Report on Accounting Methods:

- The School District does not perform a search of the Auditor of State’s Findings for Recovery website. The School District should perform a search of the Auditor of State’s Findings for Recovery website and keep a printed copy of the results of the search on file as proof of verification of vendors.

Implemented:

The School District performs a search of the Auditor of State’s Findings for Recovery website and keeps a printed copy of the results of the search on file as proof of verification of vendors.

Auditor of State Comment from Report on Accounting Methods:

- The School District does not perform a search of the United States Department of State’s terrorist exclusion list website. The School District should perform a search of the United States Department of State’s terrorist exclusion list website and keep a printed copy of the results of the search on file as proof of verification of vendors.

McDonald Local School District – Trumbull County

**Report on Termination of the McDonald Local School District
Financial Planning and Supervision Commission**

Implemented:

The School District performs a search of the United States Department of State's terrorist exclusion list website and keeps a printed copy of the results of the search on file as proof of verification of vendors.

Auditor of State Comment from Report on Accounting Methods:

- Section 5705.41(D)(3), Revised Code, allows the fiscal officer to certify expenditures in an amount not in excess of an amount established by resolution adopted by a majority of the members of the board of education. This type of certification, referred to as a blanket certification (blanket purchase orders), has not been authorized by the Board of Education. The Treasurer continues to issue blanket certificates under the old statutory restriction of 90 days and \$5,000. The Board of Education should adopt a resolution that identifies the maximum dollar amount for blanket certifications/purchase orders.

Implemented:

The Board of Education adopted a policy that identifies the maximum dollar amount for blanket certifications/purchase orders at \$5,000.

Auditor of State Comment from Report on Accounting Methods:

- The School District does not issue 412 certificates for qualifying contracts. Section 5705.412, Revised Code, requires the School District to certify, prior to entering into a qualifying contract, that payment of the obligation will not affect the School District's ability to maintain all personnel and programs for the term of the contract. The certificate is to be attached to the qualifying contract and signed by the Treasurer, Superintendent, and President of the Board. If the School District is in a state of fiscal emergency, the certificate shall be signed by a member of the School District's Financial Planning and Supervision Commission who is designated by the Commission for this purpose. The certificate is to be attached to any qualifying contract.

Implemented:

The Financial Planning and Supervision Commission took the position that 412 certifications would not be signed by the Commission. The Superintendent, Treasurer, and President of the Board are aware of the legal requirement and will comply with the requirement.

Cash Disbursements

Auditor of State Comment from Report on Accounting Methods:

- The School District should document the procedures for cash disbursements including the staff positions and their functions. The document should also include procedures for when only partial orders are received and when an invoice exceeds the purchase order/fiscal officer certification of funds. The document should be kept on file in the Treasurers' office.

McDonald Local School District – Trumbull County

**Report on Termination of the McDonald Local School District
Financial Planning and Supervision Commission**

Implemented:

The School District has a policy for cash disbursements including staff positions and their functions. The document includes procedures for when only partial orders are received and when an invoice exceeds the purchase order/fiscal officer certification of funds.

Capital Assets and Supplies Inventory

Auditor of State Comment from Report on Accounting Methods:

- The Board policies on capitalization and inventory control threshold are not being followed. The current policies state that asset additions with a value of \$1,500 or greater and replacement costs with a value of \$1,000 or greater are to be capitalized; however, the School District is only capitalizing assets with a value of \$5,000 or greater. The School District should update its policies to reflect what assets it capitalizes.

Implemented:

The School District has updated and is following its policies that reflect the capitalization threshold as \$5,000.

Auditor of State Comment from Report on Accounting Methods:

- The School District does not complete a physical inventory to verify the existence of capital assets. The School District should complete a physical inventory every two to three years to verify the existence of capital assets. The School District should also update the Board policy to reflect this.

In Progress:

The School District has a policy that states that it will complete a physical inventory every two to three years to verify the existence of capital assets. The School District has contracted with a valuation company who will perform a physical inventory at the end of fiscal year 2012.

Auditor of State Comment from Report on Accounting Methods:

- The School District does not maintain capital asset records. The School District currently only reviews the capital asset listing maintained by the GAAP converter. The School District should maintain records for capital assets using the State software Equipment Inventory System (EIS).

In Progress:

The School District has contracted with a valuation company to develop and assist in maintaining the EIS State software system at the end of fiscal year 2012.

McDonald Local School District – Trumbull County

**Report on Termination of the McDonald Local School District
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Auditor of State Comment from Report on Accounting Methods:

- The School District does not assign salvage value to depreciable capital assets. In accordance with GASB Statement No. 34, depreciation expense should be calculated by allocating the net cost of depreciable assets over their estimated useful lives. The net cost of depreciable assets is defined as historical cost less estimated salvage value. The School District should assign salvage values to depreciable assets and recalculate annual and accumulated depreciation.

In Progress:

The School District will assign a salvage value to its depreciable capital assets and recalculate annual and accumulated depreciation when the valuation company it is contracting with performs the assessment.

Auditor of State Comment from Report on Accounting Methods:

- The School District does not maintain a listing of individual assets under the capitalization threshold that should be tracked for insurance purposes only. The School District should update its capital assets policy to identify which individual assets should be tracked for insurance purposes only and maintain a listing of these assets.

In Progress:

The School District's capital assets policy has been updated to identify which individual assets should be tracked for insurance purposes only and will maintain a listing of these assets once the valuation company performs the assessment.

Auditor of State Comment from Report on Accounting Methods:

- The Treasurer's office does not verify the existence or non-existence of any significant consumable inventory other than food service supplies. The Treasurer should verify that there are no significant inventories other than food service to be reported. This should be done by physically checking the areas where consumable inventories would be stored.

In Progress:

The School District has updated its consumable inventory policy to require each building to complete a physical inventory at the end of each fiscal year and submit it to the Treasurer's office. The first inventory count for consumables will be completed at the end of fiscal year 2012.

McDonald Local School District – Trumbull County

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Cash Management and Investing

Auditor of State Comment from Report on Accounting Methods:

- The School District does not have a policy for distribution of interest income. The School District should adopt a policy for the distribution of interest income.

Implemented:

The School District has a policy for distribution of interest income stating that it should be divided between funds receiving tax dollars from the community based on a percentage that it is following.

Financial Reporting

Auditor of State Comment from Report on Accounting Methods:

- The Board does not receive reports presenting estimated revenues and appropriations. The Treasurer should provide the Board with reports comparing estimated revenues and appropriations to actual amounts on a monthly and cumulative basis.

Implemented:

The Treasurer presents reports comparing estimated revenues and appropriations to actual amounts on a monthly and cumulative basis.

Auditor of State Comment from Report on Accounting Methods:

- In accordance with Section 117.38, Revised Code, the School District should publish in a local newspaper that the financial report is available for public inspection at the office of the Treasurer .

Implemented:

The School District has published in the local newspaper that the financial report is available for inspection at the office of the Treasurer which is in accordance with Section 117.38, Revised Code.

Recent Audit Report and Compliance and Management Letters

In addition to reviewing the actions taken to address the issues identified in the Report on Accounting Methods and before releasing a school district from fiscal emergency, the Auditor of State reviews the current audit report to determine if there are deficiencies in the school district's financial reporting or any significant failures to comply with the requirements of the Ohio Revised Code.

The Auditor of State released an audit report on the School District's financial statements as of and for the fiscal year ended June 30, 2011, on January 3, 2012. The report expressed an unqualified opinion of the financial statements.

McDonald Local School District – Trumbull County

Report on Termination of the McDonald Local School District Financial Planning and Supervision Commission

As part of the audit report, the School District receives letters on legal compliance and related internal controls and a management letter. The management letter disclosed non-compliance issues with State laws and regulations relating to the audit for fiscal year 2011, which included recommendations for budgeting purposes.

The School District has corrected or is in the process of correcting the issues identified in the management letter; therefore, the Auditor of State has concluded that the issues identified in the management letter do not require that the School District's release from fiscal emergency be delayed.

Section 2 – Fiscal Emergency Conditions

The Auditor of State shall issue an order, under Section 3316.03, Revised Code, declaring a school district to be in a state of fiscal emergency if the Auditor of State determines that a school district meets any of the criteria for fiscal emergency. The criteria are as follows:

1. An operating deficit has been certified for the current fiscal year, and the certified operating deficit exceeds 15 percent of the school district's general fund revenue for the preceding fiscal year and a levy has not been passed by the voters that will raise enough additional revenue to eliminate the first condition in the succeeding fiscal year.
2. The school district board fails to submit a plan acceptable to the State Superintendent of Public Instruction within 120 days of the declaration of fiscal watch, or an updated plan no later than the anniversary of the date on which the first plan was approved.
3. The Superintendent of Public Instruction has reported to the Auditor of State that the school district is not materially complying with the provision of an original or updated plan as approved by the State Superintendent, and that the State Superintendent has determined a declaration of a state of fiscal emergency is necessary to prevent further fiscal decline, and the Auditor of State finds that the determination of the Superintendent is reasonable.
4. A declaration is made under Section 3316.04 of the Ohio Revised Code for a school district that has restructured or refinanced an emergency operating loan under Section 3316.041 of the Ohio Revised Code; and,
5. The Auditor of State may issue an order declaring a school district to be in a state of fiscal emergency if (1) an operating deficit has been certified for the current fiscal year, and the certified operating deficit exceeds 10 percent, but does not exceed 15 percent, of the school district's general fund revenue for the preceding fiscal year; (2) a levy has not been passed by the voters that will raise enough additional revenue to eliminate the first condition in the succeeding fiscal year; and, (3) the Auditor of State determines that a declaration of fiscal emergency is necessary to correct the district's fiscal problems and to prevent further fiscal decline.

In order to be released from fiscal emergency, a school district must have corrected or eliminated the fiscal emergency conditions that existed at the time of the emergency declaration and no new emergency conditions may have occurred.

McDonald Local School District – Trumbull County

**Report on Termination of the McDonald Local School District
Financial Planning and Supervision Commission**

The results of our analysis of the fiscal emergency conditions are as follows:

1. The School District no longer has an operating deficit in the general fund.
2. The State Superintendent of Public Instruction has not reported to the Auditor of State any material noncompliance with the original or amended financial recovery plan.
3. The School District has not restructured or refinanced an emergency operating loan under Section 3316.041 of the Ohio Revised Code.
4. The examination of the School District's five-year forecast includes a non-adverse opinion rendered by the Auditor of State.

Section 3 – Financial Recovery Plan

We obtained and reviewed a copy of the latest financial recovery plan of the School District (dated February 22, 2010). The Treasurer of the School District and the Chairperson of the Financial Planning and Supervision Commission provided us with a summary of the key provisions of the plan and the actions taken to achieve the provisions of the plan, which were confirmed by us. The key provisions of the financial plan are as follows:

1. The School District will continue to develop and maintain a five-year financial forecast that establishes the parameters of expenditures versus revenues for the School District. The forecast will be updated as required to reflect the changes in assumptions and the most likely course of the School District.
2. The Board of Education will contain expenditures within the five-year financial forecast and the Financial Recovery Plan.
3. The School District will review and follow its purchasing procedures and ensure that each transaction is properly authorized, documented and recorded.

Actions taken to achieve the provisions of the plan include the following:

1. Monitored operating expenditures;
2. Monitored personnel levels;
3. The School District prepared monthly reports of receipts, expenditures, and encumbrances, which were monitored by staff from the Fiscal Assistance Section of the Ohio Department of Education; and
4. Monitored purchasing.

McDonald Local School District – Trumbull County

**Report on Termination of the McDonald Local School District
Financial Planning and Supervision Commission**

Section 4 – Five-Year Forecast

The Auditor of State examined the School District’s financial forecast for the fiscal years ending June 30, 2012 through 2016, for the purpose of determining whether the fiscal emergency conditions have been eliminated and whether any new fiscal emergency conditions are expected to occur during the forecast period.

The School District’s five-year forecast (see Appendix A) presents a positive unencumbered and unreserved general fund balance for the five-year period ending June 30, 2016. The Auditor of State, in a report dated January 19, 2012, rendered a “nonadverse” opinion on the financial forecast.

Section 5 – Conclusion

Based on our review, the Auditor of State has determined the following:

1. The School District has adopted and implemented an effective accounting and reporting system;
2. The School District has corrected or eliminated all the fiscal emergency conditions, no new conditions have occurred, and it appears that, based on the five-year financial forecast, the School District will remain out of fiscal emergency during the forecast period;
3. The School District has met the major objectives of the Financial Recovery Plan; and,
4. The School District has prepared a financial forecast for a five-year period in accordance with standards issued by the Auditor of State, and the opinion expressed by the Auditor of State is “nonadverse”.

Therefore, the Auditor of State has determined that the Financial Planning and Supervision Commission of the McDonald Local School District and its functions may be terminated.

DISCLAIMER

Because the preceding procedures were not sufficient to constitute an audit made in accordance with generally accepted auditing standards, we do not express an opinion on any of the specific accounts and fund balances referred to above. Had we performed additional procedures or had we made an audit of the financial statements in accordance with generally accepted auditing standards, other matters might have come to our attention that would have been reported herein.

McDonald Local School District – Trumbull County

**Report on Termination of the McDonald Local School District
Financial Planning and Supervision Commission**

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APPENDIX A

McDonald Local School District
Trumbull County, Ohio

Financial Forecast

For the Fiscal Years Ending June 30, 2012 through June 30, 2016

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McDonald Local School District – Trumbull County

Fiscal Emergency Termination

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Dave Yost • Auditor of State

Board of Education
McDonald Local School District
600 Iowa Avenue
McDonald, Ohio 44437

Independent Accountant's Report

We have examined the accompanying forecasted statement of revenues, expenditures and changes in fund balance of the general fund of the McDonald Local School District for the fiscal years ending June 30, 2012 through 2016. The McDonald Local School District's management is responsible for the forecast. Our responsibility is to express an opinion on the forecast based on our examination.

Our examination was conducted in accordance with the attestation standards established by the American Institute of Certified Public Accountants, and accordingly, included such procedures as we considered necessary to evaluate both the assumptions used by management and the preparation and presentation of the forecast. We believe that our examination provides a reasonable basis for our opinion.

In our opinion, the accompanying forecast is presented in conformity with guidelines for presentation of a forecast established by the American Institute of Certified Public Accountants, and the underlying assumptions provide a reasonable basis for the Board's forecast. However, there will usually be differences between the forecasted and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

The statement of revenues, expenditures and changes in fund balance arising from cash transactions of the general fund for the fiscal years ended June 30, 2009, 2010, 2011 were compiled by us and we have not audited or reviewed the accompanying financial statements, and, accordingly, we do not express an opinion or provide any assurance about whether the financial statements are in accordance with the cash basis of accounting. Management is responsible for the preparation and fair presentation of the financial statements in accordance with the cash basis of accounting and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements. Our responsibility is to conduct the compilation in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The objective of a compilation is to assist management in presenting financial information in the form of financial statements without undertaking to obtain or provide any assurance that no material modifications that should be made to the financial statements. Management has chosen to omit the disclosures associated with the cash basis of accounting.

A handwritten signature in black ink that reads "Dave Yost".

DAVE YOST
Auditor of State

January 19, 2012

McDonald Local School District
Trumbull County
Statement of Revenues, Expenditures and Changes in Fund Balance
For the Fiscal Years Ended June 30, 2009 Through 2011 Actual;
For the Fiscal Years Ending June 30, 2012 Through 2016 Forecasted
General Fund

	Fiscal Year 2009 Actual	Fiscal Year 2010 Actual	Fiscal Year 2011 Actual
Revenues			
General Property Taxes	\$1,214,000	\$1,207,000	\$1,372,000
Tangible Personal Property Taxes	48,000	7,000	4,000
Unrestricted Grants-in-Aid	3,733,000	3,392,000	3,418,000
Restricted Grants-in-Aid	32,000	27,000	1,000
Restricted Federal Grants-in-Aid	0	236,000	552,000
Property Tax Allocation	288,000	344,000	347,000
All Other Revenues	981,000	1,063,000	1,049,000
<i>Total Revenues</i>	<u>6,296,000</u>	<u>6,276,000</u>	<u>6,743,000</u>
Other Financing Sources			
Proceeds from Sale of Notes	160,000	600,000	0
Solvency Assistance Advance	0	2,001,000	0
Transfers In	0	0	5,000
Advances In	0	0	55,000
<i>Total Other Financing Sources</i>	<u>160,000</u>	<u>2,601,000</u>	<u>60,000</u>
<i>Total Revenues and Other Financing Sources</i>	<u>6,456,000</u>	<u>8,877,000</u>	<u>6,803,000</u>
Expenditures			
Personal Services	4,222,000	4,144,000	3,276,000
Employees' Retirement/Insurance Benefits	1,290,000	1,671,000	1,171,000
Purchased Services	752,000	692,000	687,000
Supplies and Materials	250,000	180,000	116,000
Capital Outlay	7,000	25,000	2,000
Debt Service:			
Principal-Notes	200,000	1,450,000	0
Principal-Solvency Assistance Advance	0	0	1,001,000
Interest	7,000	60,000	0
Other Objects	67,000	95,000	55,000
<i>Total Expenditures</i>	<u>6,795,000</u>	<u>8,317,000</u>	<u>6,308,000</u>
Other Financing Uses			
Transfers Out	0	0	0
Advances Out	0	55,000	34,000
Other Financing Uses	0	0	3,000
<i>Total Other Financing Uses</i>	<u>0</u>	<u>55,000</u>	<u>37,000</u>
<i>Total Expenditures and Other Financing Uses</i>	<u>6,795,000</u>	<u>8,372,000</u>	<u>6,345,000</u>
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i>	<u>(339,000)</u>	<u>505,000</u>	<u>458,000</u>
Cash Balance (Deficit) July 1	<u>69,000</u>	<u>(270,000)</u>	<u>235,000</u>
Cash Balance (Deficit) June 30	<u>(270,000)</u>	<u>235,000</u>	<u>693,000</u>
Encumbrances and Reserves of Fund Balance:			
Actual/Estimated Encumbrances June 30	117,000	63,000	16,000
Reserves for Bus Purchase	4,000	4,000	0
Total Encumbrances and Reserves of Fund Balance	<u>121,000</u>	<u>67,000</u>	<u>16,000</u>
Fund Balance June 30 for Certification of Appropriation	(391,000)	168,000	677,000
Revenue from Replacement/Renewal Levies			
Property Tax - Renewal or Replacement	<u>0</u>	<u>0</u>	<u>0</u>
Unencumbered/Unreserved Fund Balance (Deficit) June 30	<u><u>(\$391,000)</u></u>	<u><u>\$168,000</u></u>	<u><u>\$677,000</u></u>

See accompanying summary of significant forecast assumptions and accounting policies
See Independent Accountant's Report

Fiscal Year 2012 Forecasted	Fiscal Year 2013 Forecasted	Fiscal Year 2014 Forecasted	Fiscal Year 2015 Forecasted	Fiscal Year 2016 Forecasted
\$1,539,000	\$1,686,000	\$1,583,000	\$1,250,000	\$787,000
0	0	0	0	0
3,526,000	3,526,000	3,514,000	3,514,000	3,514,000
1,000	1,000	1,000	1,000	1,000
0	0	0	0	0
290,000	323,000	324,000	325,000	325,000
1,105,000	1,035,000	1,035,000	1,035,000	1,035,000
<u>6,461,000</u>	<u>6,571,000</u>	<u>6,457,000</u>	<u>6,125,000</u>	<u>5,662,000</u>
0	0	0	0	0
0	0	0	0	0
0	0	0	0	0
34,000	25,000	15,000	10,000	5,000
<u>34,000</u>	<u>25,000</u>	<u>15,000</u>	<u>10,000</u>	<u>5,000</u>
<u>6,495,000</u>	<u>6,596,000</u>	<u>6,472,000</u>	<u>6,135,000</u>	<u>5,667,000</u>
3,361,000	3,348,000	3,341,000	3,339,000	3,351,000
1,218,000	1,290,000	1,345,000	1,404,000	1,477,000
877,000	890,000	940,000	983,000	1,029,000
161,000	166,000	171,000	176,000	181,000
109,000	95,000	15,000	105,000	25,000
0	0	0	0	0
1,000,000	0	0	0	0
0	0	0	0	0
68,000	175,000	181,000	181,000	181,000
<u>6,794,000</u>	<u>5,964,000</u>	<u>5,993,000</u>	<u>6,188,000</u>	<u>6,244,000</u>
75,000	85,000	95,000	105,000	108,000
25,000	15,000	10,000	5,000	5,000
0	0	0	0	0
<u>100,000</u>	<u>100,000</u>	<u>105,000</u>	<u>110,000</u>	<u>113,000</u>
<u>6,894,000</u>	<u>6,064,000</u>	<u>6,098,000</u>	<u>6,298,000</u>	<u>6,357,000</u>
(399,000)	532,000	374,000	(163,000)	(690,000)
<u>693,000</u>	<u>294,000</u>	<u>826,000</u>	<u>1,200,000</u>	<u>1,037,000</u>
<u>294,000</u>	<u>826,000</u>	<u>1,200,000</u>	<u>1,037,000</u>	<u>347,000</u>
17,000	17,000	17,000	17,000	17,000
0	0	0	0	0
<u>17,000</u>	<u>17,000</u>	<u>17,000</u>	<u>17,000</u>	<u>17,000</u>
277,000	809,000	1,183,000	1,020,000	330,000
0	0	103,000	438,000	903,000
<u>\$277,000</u>	<u>\$809,000</u>	<u>\$1,286,000</u>	<u>\$1,458,000</u>	<u>\$1,233,000</u>

McDonald Local School District

Trumbull County

Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2012 through June 30, 2016

Note 1 – The School District

The McDonald Local School District (School District) is located in Trumbull County and encompasses all of the Village of McDonald and portions of surrounding townships. The School District is organized under Article VI, Sections 2 and 3, of the Constitution of the State of Ohio. The legislative power of the School District is vested in the Board of Education, consisting of five members elected at large for staggered four year terms. The School District currently operates two instructional buildings. The School District is staffed by 11 classified and 51 certificated personnel to provide services to approximately 910 students and other community members.

On October 15, 2009, the School District was declared to be in a state of “Fiscal Emergency” under Section 3316.03(B)(1) by the Auditor of State. The declaration was due to the School District’s declining financial condition. In accordance with the law, a five member Financial Planning and Supervision Commission has been established to oversee the financial affairs of the School District. The Commission is comprised of the State Superintendent of Public Instruction and the State Director of Budget and Management or their designees, and three appointed members. The appointments are made by the Governor of the State of Ohio, the State Superintendent of Public Instruction, and the Auditor of Trumbull County. The Commission’s primary charge is to develop, adopt, and implement a financial recovery plan. Once the plan has been adopted, the Board of Education’s discretion is limited in that all financial activity of the School District must be in accordance with the plan.

Note 2 – Nature of the Forecast

This financial forecast presents, to the best of the McDonald Local School District Board of Education's knowledge and belief, the expected revenues, expenditures and operating balance of the general fund. Accordingly, the forecast reflects the Board of Education's judgment of the expected conditions and its expected course of action as of January 19, 2012, the date of this forecast. The assumptions disclosed herein are those that management believes are significant to the forecast. Differences between the forecasted and actual results will usually arise because events and circumstances frequently do not occur as expected, and those differences may be material.

Note 3 – Nature of the Presentation

The forecast presents the revenues, expenditures, and changes in fund balance of the general fund. Under State law, certain general fund revenues received from the State must be spent on specific programs. These resources and the related expenditures have been segregated in the accounting records of the School District to demonstrate compliance. State laws also require the general fund resources pledged for the repayment of debt to be recorded directly in the debt service fund. For presentation in the forecast, the poverty based assistance and the school district fiscal stabilization funds and general fund supported debt are included in the general fund.

McDonald Local School District

Trumbull County

Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2012 through June 30, 2016

Note 4 – Summary of Significant Accounting Policies

Basis of Accounting

This financial forecast has been prepared on a basis of cash receipts, disbursements, and encumbrances, which is consistent with the required budget basis (non-GAAP) of accounting used to prepare the historical financial statements. Under this basis of accounting, certain revenue and related assets are recognized when received rather than when earned and certain expenditures are recognized when paid rather than when the obligation is incurred. However, by virtue of Ohio law, the School District is required to maintain the encumbrance method of accounting. This method requires purchase orders, contracts, and other commitments for the expenditure of monies to be recorded as the equivalent of an expenditure in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance.

Fund Accounting

The School District maintains its accounting records in accordance with the principles of "fund" accounting. Fund accounting is a concept developed to meet the needs of governmental entities in which legal or other restraints require the segregation of specific receipts and disbursements. The transactions of each fund are reflected in a self-balancing group of accounts, an accounting entity which stands separate from the activities reported in other funds. The restrictions associated with each class of funds are as follows:

Governmental Funds

General Fund - The general fund is the operating fund of the School District and is used to account for and report all financial resources not accounted for and reported in another fund. The general fund balance is available to the School District for any purpose provided it is disbursed or transferred in accordance with Ohio law.

Special Revenue Funds - Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The term proceeds of specific revenue sources establishes that one or more specified restricted or committed revenues should be the foundation for a special revenue fund.

Debt Service Fund - Debt service funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest. Debt service funds should be used to report resources if legally mandated (i.e. debt payable from property taxes). Financial resources that are being accumulated for principal and interest maturing in future years also should be reported in the debt service funds.

Capital Projects Funds - Capital projects funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. Capital projects funds exclude those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations, or other governments.

McDonald Local School District

Trumbull County

Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2012 through June 30, 2016

Permanent Funds - Permanent funds should be used to account for and report resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs – that is, for the benefit of the government or its citizenry. Permanent funds do not include private-purpose trust funds, which should be used to report situations in which the government is required to use the principal or earnings for the benefit of individuals, private organizations, or other governments.

Proprietary Funds

Enterprise Funds - Enterprise funds account for any activity for which a fee is charged to external users for goods or services.

Internal Service Funds - Internal service funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the School District, or to other governments on a cost-reimbursement basis.

Fiduciary Funds

Fiduciary funds account for assets held by the School District in a trustee capacity or as an agent for individuals, private organizations, or other governmental units. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds.

Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated.

Budget - A budget of estimated cash receipts and disbursements is submitted to the Trumbull County Auditor, as secretary of the county budget commission, by January 20 of each year, for the succeeding fiscal year.

Estimated Resources - The county budget commission certifies its actions to the School District by March 1. As part of this certification, the School District receives the official certificate of estimated resources which states the projected receipts of each fund. On or about July 1, this certificate is amended to include any unencumbered balances from the preceding fiscal year. Prior to June 30, the School District must revise its budget so that total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation measure.

Appropriations - A temporary appropriation measure to control cash disbursements may be passed on or about July 1 of each year. The temporary appropriation measure remains in place until the annual appropriation measure is adopted for the entire fiscal year. The appropriation measure may be amended or supplemented during the fiscal year as new information becomes available.

McDonald Local School District

Trumbull County

Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2012 through June 30, 2016

Encumbrances - The School District uses the encumbrance method of accounting. Under this system, purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve a portion of the applicable appropriation.

Note 5 – General Operating Assumptions

The McDonald Local School District will continue to operate its instructional program in accordance with its adopted and anticipated school calendars and pay all obligations. The forecast contains those expenditures the Board of Education has determined to be necessary to provide for an adequate educational program.

Note 6 – Significant Assumptions for Revenues and Other Financing Sources

General and Tangible Personal Property Taxes

Property taxes are applied to real property, public utility real and personal property and manufactured homes which are located within the School District. Property taxes are collected for, and distributed to, the School District by the county auditor and treasurer. Settlement dates, on which collections are distributed to the School District, are established by State statute. The School District may request advances from the Trumbull County Auditor as the taxes are collected. When final settlements are made, any amounts remaining to be distributed to the School District are paid. Deductions for auditor and treasurer fees, advertising delinquent taxes, election expenses, and other fees are made at these settlement times. The amounts shown in the revenue section of the forecast represent gross property tax revenue.

Property taxes are levied and assessed on a calendar year basis while the School District's fiscal year runs from July through June. Property tax revenue received during calendar year 2012 (the collection year) for real and public utility property taxes represents collections of 2011 taxes (the tax year). Property tax payments received during calendar year 2012 for tangible personal property (other than public utility property) are for delinquent taxes. First half calendar year tax collections are received by the School District in the second half of the fiscal year. Second half calendar year tax distributions occur in the first half of the following fiscal year.

State law allows for certain reductions in the form of rollbacks and homestead exemptions for real estate taxes. The State reimburses the School District for all revenues lost due to these exemptions. The amount of the reimbursement is presented in the account "Property Tax Allocation".

Prior to fiscal year end, a school district may request an advance of real property tax collections that ordinarily would be settled in August and used to finance the upcoming fiscal year. The forecast excludes the receipt of any advances against the next fiscal year scheduled property tax settlements. The potential advances have been excluded due to the School District's inability to appropriate this revenue until received and the uncertainty of the timing of any advances. Currently, it is the Board's intent not to appropriate any such advances for fiscal years 2012 through 2016.

McDonald Local School District

Trumbull County

Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2012 through June 30, 2016

The property tax revenues for the general fund are generated from several levies. The current levies being collected for the general fund, the year approved, first year of collection, and the full tax rate are as follows:

Tax Levies	Year Approved/ Renewed	First Calendar Year of Collection	Last Calendar Year of Collection	Full Tax Rate (Per \$1,000 of Assessed Valuation)
Inside Ten Mill Limitation (Unvoted)	n/a	n/a	n/a	\$5.10
Continuing Operating	1976	n/a	n/a	30.80
Continuing Operating	1980	n/a	n/a	6.00
Emergency (\$200,147)	2007	2008	2012	3.90
Emergency (\$260,000)	2009	2010	2014	4.90
Emergency (\$391,000)	2011	2012	2016	7.25
Total Tax Rate				<u>\$57.95</u>

The School District also has a levy for permanent improvements of \$2.00 per \$1,000 of assessed valuation, a bond levy of \$3.90 per \$1,000 of assessed valuation and a levy for classroom facilities maintenance of \$.50 per \$1,000 of assessed valuation. The School District's total tax rate is \$64.35 per \$1,000 of assessed valuation.

Ohio law provides for a reduction in the rates of voted levies to offset increased values resulting from a reappraisal of real property. Reduction factors are applied to voted levies so that each levy yields the same amount of real property tax revenues on carryover property as in the prior year. Reduction factors are also adjusted to generate the same amount of property tax revenue on carryover property when there is a decline in the assessed valuation of property. For all voted levies, except emergency and debt levies, increases in revenues are restricted to amounts generated from new construction. Emergency and debt levies are intended to generate a set revenue amount annually. The revenue generated by emergency and debt levies is not affected by changes in real property valuation. The reduction factors are computed annually and applied separately for residential/agricultural real property and commercial/industrial real property. Reduction factors are not applied to inside millage (an unvoted levy). State law also prohibits the reduction factors from reducing the effective millage of the sum of the general fund current operating levies (excluding emergency levies) plus inside millage used for operating purposes below 20 mills. For the general fund, the effective residential and agricultural real property tax rate is at \$36.19 per \$1,000 of assessed valuation for collection year 2012, and the effective commercial and industrial real property tax rate is \$55.22 per \$1,000 of assessed valuation for collection year 2012.

Public utility personal property taxes are collected and settled by the county with real estate taxes and are recorded as general property taxes. Tangible personal property used in businesses was taxed in calendar years prior to 2011. No tangible personal property taxes have been levied or collected after calendar year 2010. The State of Ohio reimburses the School District for the loss of tangible personal property taxes as a result of these changes within certain limitations (see Property Tax Allocation Revenue below).

McDonald Local School District

Trumbull County

Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2012 through June 30, 2016

General Property Tax – General property tax revenue includes real estate taxes, public utility property taxes and manufactured home taxes. The amount shown in the revenue section of the forecast schedule represents gross property tax revenue and is based upon information provided by the Trumbull County Auditor. The School District anticipates an increase of \$167,000 in fiscal year 2012 over the prior fiscal year due to the School District receiving roughly a half year of collections of the \$391,000 emergency levy passed in May 2011. Fiscal year 2013 is expected to increase again due to receiving a full year of the \$391,000 emergency levy and remain steady for the remainder of the forecast period. Property tax revenue from the anticipated renewal of the emergency levies is presented at the bottom of the forecast financial statement.

Unrestricted and Restricted Grants-in-Aid

In fiscal year 2009, the State's foundation program, established by Chapter 3317 of the Ohio Revised Code, included formula aid and various categorical aid programs such as special and gifted education, career and technical education and transportation. Other programs such as parity aid, excess cost supplement and transitional aid guarantee provided to address certain policy issues or to correct flaws in formula aid, were also included in this revenue. The semi-monthly payments were calculated by the State Department of Education, Division of School Finance, on the basis of pupil enrollment (ADM), times a per pupil foundation level, less the equivalent of 23 mills times the School District's taxable property valuation. The per pupil foundation level was set by State Legislature. The per pupil amount was increased by four base supplements called "building blocks." The building blocks were funding for intervention, professional development, data based decision making, and professional development for data based decision making.

The per pupil amount for fiscal year 2009 is \$5,783 consisting of \$5,732 of per pupil foundation level and \$51 of added building blocks.

Beginning in fiscal year 2010, the State General Assembly adopted a new funding method called the Ohio Evidence-Based Model (OEBM). The Ohio Evidence-Based Model was established in Chapter 3306 of the Ohio Revised Code and linked educational research on academic achievement and successful outcomes with funding components to achieve results. It incorporated real financial data and socioeconomic factors to fund resources and implement proven school programs according to the student need to achieve educational adequacy. The adequacy amount was the sum of service support components for instruction, administrative, operations and maintenance, gifted and enrichment, professional development and an instructional materials factor. These factors were multiplied against the Ohio education challenge factor (a district's wealth factor) and the State-wide base salary for given positions and the number of positions funded. Other factors included in the calculation were student/teacher ratios, organizational units, and average daily membership (ADM). The adequacy amount was offset by the school district share of the adequacy amount (the charge off amount), which was equal to 22 mills for fiscal year 2010 and 2011, 21 mills for 2012 and 2013, and 20 mills for 2014 and thereafter.

The State Department of Education, Division of School Finance calculated the annual funding, including the adequacy amount, and distributes a prorated share bi-monthly to the School District. In transitioning to the Ohio Evidence-Based Model, the gifted, enrichment, technology service support components and the charge off amount were phased in over a five year period. In addition, school districts were guaranteed 99 and 98 percent, respectively, for 2010 and 2011 of the total amount received from the 2009 fiscal year's State Foundation aid.

McDonald Local School District

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Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2012 through June 30, 2016

In fiscal years 2010 and 2011, approximately seven percent of the adequacy funding was provided from a State Fiscal Stabilization grant received by the State of Ohio under the American Recovery and Reinvestment Act (see D - Restricted Federal Grants-in-Aid) for the McDonald Local School District.

Beginning in fiscal year 2012, the administration of Governor John Kasich has proposed a move away from the Ohio Evidence Based Model to a new funding method. However, since a new funding mechanism is not formulated as of yet, the administration has decided to fund school districts in fiscal year 2012 based on a transitional approach until a new formula is devised. This transitional approach is referred to as the Bridge formula. The Bridge formula divides the fiscal year 2011 OEBM funding by a calculated ADM to determine the per pupil funding. The per pupil funding is then multiplied by the fiscal year 2012 ADM. The adequacy amount is offset by the school district share of the adequacy amount (the charge off amount), which is equal to 21 mills of property taxes for fiscal year 2012. In addition to this adjustment, each school district's fiscal year 2012 funding is further adjusted so that the district receives at least the total funding it received in fiscal year 2011 after subtracting the state fiscal stabilization funds from total funding as well as to provide financial incentives for high performing districts. For fiscal year 2012, the McDonald Local School District estimates \$3,526,000 in unrestricted funding. This level is forecasted for fiscal year 2013, as well. Fiscal years 2014 through 2016 are forecasted slightly lower due to the uncertainty of the future availability of the High Performing Subsidy revenue.

Restricted Grants-in-Aid

Restricted grants-in-aid consist of career tech monies. For the entire forecast period, the School District anticipates \$1,000 in career tech monies.

Restricted Federal Grants-in-Aid

In fiscal years 2010 and 2011, restricted federal grants-in-aid consisted of State Fiscal Stabilization Funds and the Education Jobs grant monies. In 2010, Ohio was allocated \$845 million from the American Recovery and Reinvestment Act in State Fiscal Stabilization Funds (SFSF) to help stabilize state and local budgets in order to minimize and avoid reductions in education and other essential services. SFSF for primary and secondary education was distributed to school districts as part of the foundation settlement payments twice a month. These funds had limited restrictions on their use. McDonald Local School District received \$236,000 and \$295,000 in fiscal years 2010 and 2011, respectively, which was used for teacher salaries. SFSF has not been reauthorized by the Federal government for the forecast period.

In 2010, Congress passed and the President has signed legislation that provides \$10 billion in resources to assist local school districts in saving or creating education jobs during fiscal years 2011 and 2012. The Education Jobs grant may be used only for compensation and benefits and other expenses, such as support services, necessary to retain existing employees, to recall or rehire former employees, and to hire new employees, in order to provide early childhood, elementary, or secondary educational and related services. These funds have limited restrictions on their use. The McDonald Local School District, received \$257,000 in fiscal year 2011. These funds have limited restrictions on their use. The School District has used these funds in fiscal year 2011 for salaries and benefits for the fifth and sixth grade teachers.

McDonald Local School District

Trumbull County

Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2012 through June 30, 2016

Property Tax Allocation

State law grants tax relief in the form of a ten percent reduction in real property tax bills. In addition, a two and one-half percent rollback is granted on residential property taxes. Tax relief is also granted to qualified elderly and disabled homeowners based on their income. Beginning in tax collection year 2008, the State expanded the homestead exemption to allow eligible homeowners to shield the first \$25,000 in market value from taxation. The State reimburses the School District for the loss of real property taxes as a result of the rollback and homestead tax relief programs. Homestead and rollback revenue is forecast to increase in fiscal years 2012 and 2013 due to the additional emergency levy collections and remain steady from fiscal year 2014 through fiscal year 2016.

In fiscal year 2006, the State began reimbursing the School District for lost revenue due to the phase out of tangible personal property tax. In the first five years, the School District was fully reimbursed relative to prior law for revenue lost due to the taxable value of reductions through 2013. Beginning in fiscal year 2013, the reimbursements are gradually phased out. The reimbursement is the difference between the assessed values under prior law and the assessed values under House Bill 66. This means the School District is only reimbursed for the difference between the amounts that would have been received under the prior law and the amounts actually received as the phase-outs in House Bill 66 are implemented. The State biennium budget for 2012/2013 calls for accelerating the scheduled phase-out of tangible personal property tax loss reimbursement payments. The test for whether a school district continues to get a reimbursement is whether a school district's reimbursement exceeds 2 percent of total resources. If it does not exceed 2 percent, all payments end. The McDonald Local School District did not exceed 2 percent and payments have stopped starting with fiscal year 2012.

All Other Revenues

All other revenues include tuition, interest, student class fees, reimbursements and other revenue.

Open enrollment tuition revenue is expected to decrease from the prior fiscal year due to a decrease in the number of students from other school districts attending the School District.

Interest is based on historical investment practices and anticipated rates and cash balances during the forecast period. The School District pools cash from all funds for investment purposes. Investments are restricted by provisions of the Ohio Revised Code and are valued at cost. Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings with the greatest allocation being to the general fund. Interest revenue is anticipated to remain consistent, due to low interest rates and little money available to invest.

Student class fees are forecasted to remain consistent with the prior fiscal year, which were increased in fiscal year 2011. This revenue is forecasted to remain steady for the forecast period.

Other revenue is forecasted to increase in fiscal year 2012 from the prior year due to the School District anticipating a reimbursement from the insurance company for the repair of the chiller at Roosevelt School. For fiscal years 2013 through 2016, other revenue is expected to decrease back to normal levels and remain steady.

McDonald Local School District

Trumbull County

Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2012 through June 30, 2016

All other revenues consist of the following:

Revenue Sources	Forecasted				
	Fiscal Year 2012	Fiscal Year 2013	Fiscal Year 2014	Fiscal Year 2015	Fiscal Year 2016
Open Enrollment Tuition	\$965,000	\$965,000	\$965,000	\$965,000	\$965,000
Other Tuition	10,000	10,000	10,000	10,000	10,000
Interest	3,000	3,000	3,000	3,000	3,000
Student Class Fees	22,000	22,000	22,000	22,000	22,000
Other	105,000	35,000	35,000	35,000	35,000
Totals	<u>\$1,105,000</u>	<u>\$1,035,000</u>	<u>\$1,035,000</u>	<u>\$1,035,000</u>	<u>\$1,035,000</u>

Other Financing Sources

Proceeds from Sale of Notes – During fiscal year 2009, the School District issued \$160,000 in tax anticipation notes at 5.00 percent interest against fiscal year 2010 tax collections. During fiscal year 2010, the School District issued \$600,000 in tax anticipation notes at 5.00 percent against fiscal year 2011 tax collections.

Solvency Assistance Advance – During fiscal year 2010, the School District received a Solvency Assistance Fund Advance in the amount of \$2,001,000 from the State. The State solvency assistance fund advances money to school districts that are in fiscal emergency or that meet one or more of nine reasons identified in Section 3301-92-03 of the Ohio Administrative Code. The advance will be repaid over two years from State foundation revenues.

Note 7 – Significant Assumptions for Expenditures and Other Financing Uses

Personal Services

Personal services expenditures represent the salaries and wages paid to certified employees, classified and administrative staff, substitutes, tutors and board members. In addition to regular salaries, it includes payment for supplemental contracts, severance pay, and a retirement incentive bonus. All employees receive their compensation on a bi-weekly basis. Administrative and non-bargaining unit salaries are set by the Board of Education.

Staffing levels for the last three fiscal years and the current fiscal year are displayed in the chart below. The amounts represent full time equivalents. Staffing levels are anticipated to increase by one full-time regular teacher and one and a half special education teachers in fiscal year 2013, and remain consistent for the remainder of the forecast period.

McDonald Local School District

Trumbull County

Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2012 through June 30, 2016

	2009	2010	2011	2012
<i>General Fund:</i>				
Certified	62	60	50	50
Classified	13	13	9	9
Total General Fund:	75	73	59	59
<i>Other Funds:</i>				
Certified	1	1	1	1
Classified	2	2	2	2
Total Other Funds:	3	3	3	3
Totals	78	76	62	62

Certified (teaching) staff salaries are based on a negotiated contract which includes step increases and educational incentives. Fiscal years 2008 and 2009 included a two and one quarter percent and two and a half percent increase in base salary, respectively, as well as step increases that range from two and a half to five percent. Fiscal year 2010 included a two and a half percent increase in base salary as well as step increases that range from two and a half to five percent. Fiscal years 2011 and 2012 include a freeze in base salary, but provide for step increases that range from two and a half to five percent. The current contract covers the period September 1, 2010 through August 31, 2013. It is forecasted for fiscal years 2012 through 2015 that two certified staff employees will retire each year and be replaced by base level certified staff. The reduction in expenditures from this is offset by step increases ranging from two to five percent for each fiscal year of the forecast period, as well as applying a one percent base increase beginning in fiscal year 2014 through the forecast period.

Classified salaries are based on a negotiated contract which includes step increases. The current contract covers the period September 1, 2010 through August 31, 2013. Fiscal years 2008 and 2009 included a two and a half percent increase in base salary as well as step increases that range from one to two percent. Fiscal year 2010 included a two and a half percent increase in base salary as well as step increases that range from one to two percent. Fiscal years 2012 and 2013 includes a freeze in base salary but provides for step increases that range from one to two percent. For fiscal years 2014 through 2016, classified salaries will show a one percent base increase in addition to the step increase.

In fiscal years 2014 through 2016, the School District has forecasted a one percent increase in base salary each year for the certified employees and the classified employees. These increases are subject to negotiations and approval by the Board of Education. The likelihood of achieving the base increases for fiscal years 2014 through 2016 is unknown, but is included in the forecast. Each additional one percent base increase would increase certified and classified salaries and benefits \$23,000 and \$4,000, respectively, in fiscal year 2014, \$30,000 and \$5,000, respectively, in fiscal year 2015, and \$34,000 and \$5,000, respectively, in fiscal year 2016, and would decrease the fund balance each fiscal year by the same amount. The cumulative effect on fund balance in fiscal year 2016 would be a decrease of \$101,000.

Substitute salaries are expected to increase in fiscal year 2012 due to the anticipated need to cover full-time employees expected leave time increase; however, overtime is expected to return to the fiscal year 2011 level for the forecast period.

McDonald Local School District

Trumbull County

Summary of Significant Assumptions and Accounting Policies For the Fiscal Year Ending June 30, 2012 through June 30, 2016

Supplemental salaries are expected to remain consistent with prior years and increase only slightly over the forecast period. Additionally, supplemental pay will no longer be based on the base pay of the employee. It will now be a predetermined amount set by the Board of Education.

The School District offers severance pay upon retirement to its certified and classified employees with at least ten years of service in the School District. Payments for certified employees and principals are one-fourth of the value of their accumulated sick leave up to eighty days. Payments to administrators are twenty-five percent of the value of their accumulated sick leave up to thirty days for the Superintendent and classified employees receive twenty-five percent of the value of their accumulated sick leave. Certified employees and administrators accumulate sick leave without any limit. Payment is based on the daily rate of pay at retirement.

The Board of Education offered a retirement incentive bonus in fiscal years 2008, 2009 and 2010 to certified employees who were eligible to retire and chose to take the incentive as of June 30 each year. In fiscal year 2008, six employees took the incentive of \$20,000 each, in fiscal year 2009, three employees took the incentive of \$15,000 each, and in fiscal year 2010, four employees took the retirement incentive of \$15,000. The incentives are paid in five year increments starting in fiscal years 2009, 2010, and 2011, respectively.

Severance and early retirement incentive costs are anticipated to decrease annually due to fewer employees retiring in fiscal year 2012 and the School District paying down the early retirement incentive costs that were outstanding in fiscal year 2011.

The School District offered an opt-out incentive to employees who chose not to participate in the School District's insurance plan. The opt-out incentive for classified employees was eliminated August 31, 2010. The last payment made to this incentive plan for certified employees will be made in fiscal year 2012.

Presented below is a comparison of salaries and wages for fiscal years 2012 through 2016.

	Forecasted				
	Fiscal Year 2012	Fiscal Year 2013	Fiscal Year 2014	Fiscal Year 2015	Fiscal Year 2016
Certified Salaries	\$2,580,000	\$2,642,000	\$2,650,000	\$2,653,000	\$2,722,000
Classified Salaries	402,000	380,000	383,000	386,000	388,000
Substitute Salaries	130,000	93,000	94,000	96,000	97,000
Overtime	14,000	14,000	14,000	14,000	14,000
Supplemental Salaries	117,000	117,000	118,000	119,000	120,000
Severance Pay and Early Retirement Incentives	101,000	92,000	72,000	61,000	0
Insurance Opt Out	5,000	0	0	0	0
Other Salaries and Wages	12,000	10,000	10,000	10,000	10,000
Totals	<u>\$3,361,000</u>	<u>\$3,348,000</u>	<u>\$3,341,000</u>	<u>\$3,339,000</u>	<u>\$3,351,000</u>

McDonald Local School District

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Employees' Retirement/Insurance Benefits

Employees' retirement and insurance benefits include employer contributions to the State pension systems, health care, Medicare, workers' compensation, and other benefits arising from the negotiated agreements.

Retirement costs are based on the employers' contribution rate of 14 percent of salaries for STRS and SERS and an additional SERS surcharge levied to fund healthcare benefits for employees earnings less than a minimum salary amount. Payments are made based upon estimated salary and wages for each fiscal year. Adjustments resulting from differences between the estimates and the actual amounts are prorated over the next calendar year for STRS and fiscal year for SERS. The School District pays the employee's retirement contributions for its treasurer for fiscal years 2011 and 2012. In prior fiscal years, the School District paid the employee's retirement contribution for its superintendent and treasurer. The increase that appears on the schedule below is a direct correlation with the increase in salaries for the forecast period.

In years past, SERS has been paid six months in arrears by Ohio school districts. On March 18, 2010, the SERS board decided to give the school districts two options. Option one is for the school district to pay the six month arrearage by June 30, 2010, to become current. Option two is for SERS to spread the six month arrearage amount over the next six years adding this to the current payment. McDonald Local School District has chosen option two. The total liability for the School District is \$56,544 with annual payments of \$9,424.

Health care costs are based on the number of employees participating in the program and the type of coverage (single or family) provided to each employee. The School District participates in Trumbull County Schools Employee Insurance Benefits Consortium (the Consortium). Monthly premiums per person for single and family participation in the program are recommended by the Consortium and approved by the Board of Education. The health care program includes medical, prescription drug, dental care, and vision. Health care rates are fixed for a twelve month period from January through December. For the forecast period, healthcare and dental insurance rates are expected to increase seven and a half percent each year while vision insurance is expected to remain flat.

Health care, vision, and dental insurance rates are fixed by the Board of Education on a yearly basis, from January to December. The monthly payments, per individual, for health care benefits are as follows:

Coverage:	Effective		Effective	
	<u>Enrollment</u>	<u>January 1, 2010</u>	<u>Enrollment</u>	<u>January 1, 2011</u>
Health:				
PPO #1				
Single	4	\$427.48	4	\$470.23
Family	29	1,111.86	23	1,223.05
PPO #2				
Single	1	383.66	4	422.03
Family	11	998.27	18	1,098.09
Dental:				
Single	10	37.05	8	37.05
Family	58	116.55	43	116.55

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Life insurance premiums are based on the coverage amount and the anticipated number of employees participating in the program, which are expected to remain steady for the forecast period.

Workers' compensation is based on the School District's assigned rate and the amount of wages paid in a calendar year. Premiums are paid in the following calendar year. The School District paid 100 percent of fiscal year 2010's premium. In fiscal year 2011, the School District paid the entire premium in May. In fiscal year 2012, the School District anticipates paying the entire premium in May. Beginning in fiscal year 2011, the School District participates in Sheakley's Group Rating Plan. This resulted in a 0.007 reduction in the premium rate for fiscal year 2011 and a 0.002 reduction in the premium rate for fiscal year 2012. Due to this reduction, workers' compensation is expected to decrease in fiscal year 2012 and remain at \$22,000 for the forecast period.

The School District experienced an increase in unemployment for fiscal year 2011 due to the number of layoffs that occurred. Large future layoffs are not anticipated; therefore, unemployment costs are expected to fall back to a level prior to fiscal year 2011.

The School District offers a match for the administrators' contribution to the Ohio Deferred Compensation Plan up to a maximum of \$2,000.

Presented below is a comparison of benefits fiscal years 2012 through 2016.

	Forecasted				
	Fiscal Year 2012	Fiscal Year 2013	Fiscal Year 2014	Fiscal Year 2015	Fiscal Year 2016
Employer's Retirement	\$473,000	\$498,000	\$502,000	\$505,000	\$517,000
Health Care/Life Insurance	656,000	704,000	755,000	811,000	871,000
Workers' Compensation	22,000	22,000	22,000	22,000	23,000
Medicare	47,000	47,000	47,000	47,000	47,000
Unemployment	7,000	7,000	7,000	7,000	7,000
Tuition Reimbursement	10,000	9,000	9,000	9,000	9,000
Ohio Deferred Compensation	2,000	2,000	2,000	2,000	2,000
Meeting Expenses	1,000	1,000	1,000	1,000	1,000
Total	<u>\$1,218,000</u>	<u>\$1,290,000</u>	<u>\$1,345,000</u>	<u>\$1,404,000</u>	<u>\$1,477,000</u>

McDonald Local School District

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Purchased Services

Presented below is a comparison of purchased services for fiscal years 2012 through 2016.

	Forecasted				
	Fiscal Year 2012	Fiscal Year 2013	Fiscal Year 2014	Fiscal Year 2015	Fiscal Year 2016
Professional and Technical Services	\$87,000	\$91,000	\$95,000	\$100,000	\$104,000
Property Services	86,000	90,000	94,000	98,000	103,000
Travel and Meeting Expenses	8,000	8,000	9,000	9,000	10,000
Communication Costs	11,000	12,000	12,000	13,000	13,000
Utility Services	170,000	178,000	186,000	195,000	204,000
Tuition Payments	445,000	438,000	467,000	488,000	511,000
Pupil Transportation	70,000	73,000	77,000	80,000	84,000
Total	<u>\$877,000</u>	<u>\$890,000</u>	<u>\$940,000</u>	<u>\$983,000</u>	<u>\$1,029,000</u>

Professional and technical services, property services, and utility services are expected to increase due to anticipated rate increases. Tuition costs are expected to decrease in fiscal year 2013 due to higher costs in fiscal year 2012 associated with a large payment being made for excess costs related to fiscal year 2011 activity. After fiscal year 2013, an increase in tuition and other similar payments is expected due to the School District paying additional excess costs. The additional excess costs are due to an expected increase in special needs students enrolled within the School District. Pupil transportation is expected to increase incrementally throughout the forecast period based on historical trends.

Supplies and Materials

Presented below is a comparison of supplies and materials for fiscal years 2012 through 2016.

	Forecasted				
	Fiscal Year 2012	Fiscal Year 2013	Fiscal Year 2014	Fiscal Year 2015	Fiscal Year 2016
General Supplies, Library Books and Periodicals	\$94,000	\$97,000	\$100,000	\$103,000	\$106,000
Operations, Maintenance and Repair	58,000	60,000	61,000	63,000	65,000
Textbooks	9,000	9,000	10,000	10,000	10,000
Total	<u>\$161,000</u>	<u>\$166,000</u>	<u>\$171,000</u>	<u>\$176,000</u>	<u>\$181,000</u>

Supplies and materials are forecasted to increase slightly throughout the forecast period due to historical increases.

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For the Fiscal Year Ending June 30, 2012 through June 30, 2016

Capital Outlay

The acquisition or construction of property, plant and equipment acquired or used for instructional and support services is recorded as capital outlay. The School District intends to update and replace computers in each year of the forecast period. In fiscal years 2013 and 2015, the School District anticipates that it will add a new bus to its fleet. In fiscal year 2012, the School District has to replace the chiller at Roosevelt Elementary, which is expected to cost \$71,000. The cost for the chiller replacement will be reimbursed by the insurance company.

Debt Service

The principal and interest payments for the tax anticipation notes for fiscal years 2009 through 2011 consist of the following:

Type of Debt	Date Issued	Maturity Date	Amount Issued	Date Paid	Paid	
					Principal	Interest
2008 Tax Anticipation Note	1/3/2008	11/25/2008	\$200,000	11/25/2008	\$200,000	\$7,000
2009 Tax Anticipation Note	6/20/2008	6/30/2009	600,000	1/31/2010	600,000	32,000
2009 Tax Anticipation Note	12/10/2008	12/9/2009	160,000	11/23/2009	160,000	8,000
2009 Tax Anticipation Note	12/1/2008	12/1/2009	90,000	11/23/2009	90,000	5,000
2010 Tax Anticipation Note	8/12/2009	2/12/2010	600,000	2/11/2010	600,000	15,000
					<u>1,450,000</u>	<u>60,000</u>
Total					<u>\$1,650,000</u>	<u>\$67,000</u>

During fiscal year 2008, the School District issued a \$600,000 tax anticipation note. This note was due during fiscal year 2009 and was not paid. The School District issued another \$600,000 note during fiscal year 2010 to pay off the delinquent note that was due during fiscal year 2009. This note was paid in full during fiscal year 2010.

During fiscal year 2010, the School District received \$2,001,000 in a solvency assistance advance. The advance is repaid with State foundation monies in fiscal years 2011 and 2012.

Other Objects

Other object expenditures consist of dues and fees, insurance and awards. Beginning in fiscal year 2013, the School District will begin paying back the Ohio Schools Facilities Commission for unauthorized expenditures. These payments are expected to be \$117,000 per year for fiscal years 2013 through 2016. Also, beginning in fiscal year 2014, bank charges are expected to increase due to the current rate agreed upon with the bank expiring after fiscal year 2013. The School District does not anticipate being able to obtain as low of a rate in the future.

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Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2012 through June 30, 2016

Transfers and Advances Out

Advances out are anticipated to be \$25,000 for fiscal year 2012 and decline throughout the forecast period. The School District increased the cost of lunches from \$2.00 to \$2.50 in fiscal year 2011 and is looking at cost savings from joining a food consortium. These savings will allow for the advance to be paid. The School District does not believe that the advances will be paid back for a few years in full to the general fund. Transfers out are anticipated to be \$75,000 for fiscal year 2012 and increase by \$10,000 each subsequent year through fiscal year 2015. In fiscal year 2016, transfers will increase by \$3,000 from the prior fiscal year to reach the School District's goal of \$108,000 in order to make up for a permanent improvement levy that expired in fiscal year 2011.

Note 8 – Encumbrances

Encumbrances represent purchase authorizations and contracts for goods or services that are pending vendor performance and those purchase commitments which have been performed, invoiced, and are awaiting payment. Encumbrances on a budget basis of accounting are treated as the equivalent of an expenditure at the time authorization is made in order to maintain compliance with spending restrictions established by Ohio law. For presentation in the forecast, outstanding encumbrances are presented as a reduction of the general fund cash balance.

Encumbrances for purchased services and supplies and materials were greater in fiscal years 2009 and 2010. Encumbrances for fiscal year 2011 decreased due to the School District staying current with its fiscal year 2011 bills. For the forecast period, encumbrances are forecasted to be fairly consistent with fiscal year 2011 at an amount of \$17,000.

Note 9 – Reservations of Fund Balance

The School District is required by State statute to annually set aside in the general fund three percent of certain revenues for the purchase of textbooks and other instructional materials and an equal amount for capital improvements and repairs. Amounts not spent by year-end 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.

Under Sections 3315.17(B)(2) and 3315.18(D)(1), Revised Code, a Board of Education in fiscal emergency may deposit less than the required set aside or make no deposit into the textbook and capital set asides. The Board of Education by resolution waived the set-aside requirement for fiscal year 2011 for textbooks and instructional material. Effective July 1, 2011, the textbook and other instructional materials set aside requirement has been deleted from law; therefore, there is no reserve included in the forecast period.

Capital and Maintenance Set-Aside

The set aside amount for fiscal year 2012 is anticipated to be \$155,000. The School District anticipates \$209,000 in offsets and \$96,000 in qualifying expenditures during the current fiscal year and throughout the remainder of the forecast period; therefore, no reserve amount is forecasted for capital acquisition and improvements.

McDonald Local School District

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Bus Purchase Allowance Set-Aside

At June 30, 2009, the School District had \$4,000 in unspent bus monies. The School District paid \$24,000 on the purchase of a bus in fiscal year 2010. At June 30, 2011, the School District had no unspent bus purchase monies; therefore no reserve for bus purchase is forecasted.

Note 10 – Levies

The School District has placed several levies on the ballot in the last 10 years. The type of levy, millage amount, term and election results are as follows:

<u>Date</u>	<u>Type</u>	<u>Amount</u>	<u>Term</u>	<u>Election Results</u>
May 2001	Permanent Improvement	2 mills	5 Years	Passed
November 2002	Emergency	\$200,147	5 Years	Passed
November 2004	Emergency	\$108,500	5 Years	Failed
November 2005	Permanent Improvement	4.9 mills	Continuing	Failed
May 2006	Permanent Improvement	4.5 mills	Continuing	Failed
November 2006	Permanent Improvement	2 mills	5 Years	Passed
November 2007	Emergency	\$200,147	5 Years	Passed
November 2009	Emergency	\$260,000	5 Years	Passed
November 2010	Emergency	\$715,000	5 Years	Failed
May 2011	Emergency	\$391,000	5 Years	Passed

Note 11 – Pending Litigation

The School District's management is of the opinion that there are no issues that would have a material effect on the financial forecast.

Note 12 – Other Funds

The School District has numerous other funds that account for resources that are restricted for specific purposes.

The School District uses the food service fund to account for the charges for services and operating grants restricted to the food service operations of the School District. This fund is forecasted to generate adequate revenue to maintain operations during the forecast period.

All other funds of the School District are anticipated to have sufficient resources to meet their obligations during the forecast period. There are certain funds that annually rely upon advances from the general fund to meet their obligations. These advances are addressed in Note 7.

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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
FEBRUARY 28, 2012**