



**Auditor of State
Betty Montgomery**

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Margaretta Local School District
Erie County
305 South Washington Street
Castalia, Ohio 44824-9263

To the Board of Education:

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 3, 2005, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to form opinions on the financial statements that collectively comprise the District's basic financial statements. The federal awards expenditure schedule is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. We subjected the federal awards expenditure schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

Betty Montgomery
Auditor of State

March 3, 2005

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

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

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

Financial Highlights

Key financial highlights for 2004 are as follows:

- In total, net assets of governmental activities decreased \$535,205 which represents an 8.32 percent decrease from 2003.
- General revenues accounted for \$10,969,837 in revenue or 87.48 percent of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$1,569,482 or 12.52 percent of total revenues of \$12,539,319.
- The District had \$13,074,524 in expenses related to governmental activities; only \$1,569,482 of these expenses was offset by program specific charges for services, grants, or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$10,969,837 were not adequate to provide for these programs.
- The District's only major governmental fund is the general fund. The general fund had \$10,732,477 in revenues and \$11,621,044 in expenditures and other financing uses. During fiscal 2004, the general fund's fund balance decreased \$88,567 from \$4,467,930 to \$3,579,363.

Using the Basic Financial Statements (BFS)

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

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

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2004?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets, liabilities, revenues, and expenses using the accrual

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

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

basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

Reporting the District's Most Significant Funds

Fund Financial Statements

Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's only major governmental fund is the general fund.

Governmental Funds

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

Reporting the District's Fiduciary Responsibilities

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

Notes to the Basic Financial Statements

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

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

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

The District as a Whole

The Statement of Net Assets provides the perspective of the District as a whole. The table below provides a summary of the District's net assets for 2004 and 2003.

	Net Assets	
	Governmental Activities 2004	Governmental Activities 2003
Assets		
Current and other assets	11,720,093	11,102,858
Capital assets, net	2,568,036	2,534,377
<i>Total assets</i>	14,288,129	13,637,235
Liabilities		
Current liabilities	7,629,937	6,436,399
Long-term liabilities	764,759	772,198
<i>Total liabilities</i>	8,394,696	7,208,597
Net Assets		
Invested in capital assets	2,568,036	2,534,377
Restricted	251,817	-
Unrestricted	3,073,580	3,894,261
<i>Total net assets</i>	\$ 5,893,433	\$ 6,428,638

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2004, the District's assets exceeded liabilities by \$5,893,433.

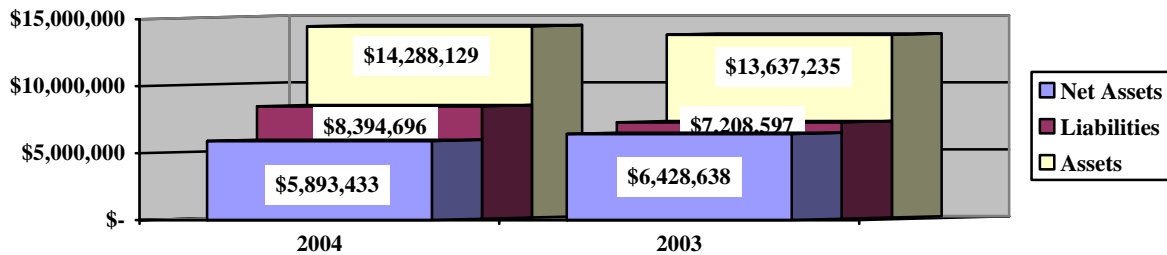
At fiscal year-end, capital assets represented 17.97 percent of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of depreciation at June 30, 2004, were \$2,568,036. These capital assets are used to provide services to the students and are not available for future spending.

A portion of the District's net assets, \$251,817, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$3,073,580 may be used to meet the District's ongoing obligations to the students and creditors.

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

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

Governmental Activities



The table below shows the change in net assets for fiscal years 2004 and 2003.

	Change in Net Assets	
	Governmental Activities 2004	Governmental Activities 2003
Revenues		
Program revenues:		
Charges for services and sales	\$ 890,027	\$ 901,790
Operating grants and contributions	679,455	545,181
General revenues:		
Property taxes	5,867,011	6,206,924
Grants and entitlements	4,972,400	5,199,442
Investment earnings	83,793	108,685
Other	46,633	27,930
<i>Total revenues</i>	<u>12,539,319</u>	<u>12,989,952</u>
Expenses		
Program expenses:		
Instruction:		
Regular	5,410,886	5,002,130
Special	1,143,435	1,162,698
Vocational	358,277	341,950
Other	116	2,501
Support services:		
Pupil	578,873	535,559
Instructional staff	623,624	581,546
Board of education	112,511	63,892
Administration	905,644	939,480
Fiscal	388,797	357,612

(Continued)

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

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

Change in Net Assets (Continued)

	Governmental Activities 2004	Governmental Activities 2003
Business		
Operations and maintenance	1,431,694	1,295,705
Pupil transportation	833,119	792,325
Central		
Operations of non-instructional services	228,513	179,743
Extracurricular activities	454,658	414,840
Food service operations	583,016	577,112
Intergovernmental pass-through	21,361	24,409
<i>Total expenses</i>	<u>13,074,524</u>	<u>12,271,502</u>
<i>Change in net assets</i>	<u>\$ (535,205)</u>	<u>\$ 718,450</u>

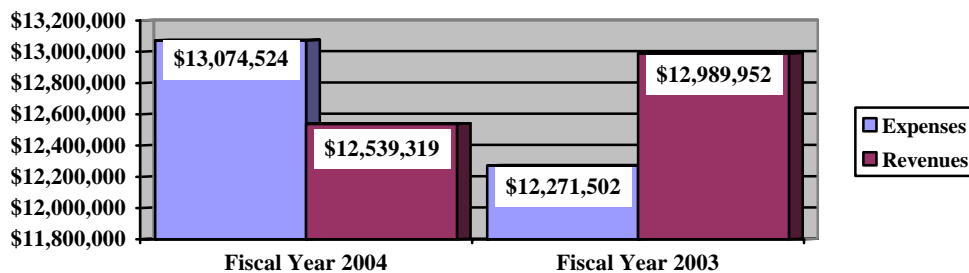
Governmental Activities

Net assets of the District's governmental activities decreased \$535,205. The decrease is due to expenses exceeding revenues. The most significant increase in expenses is due to increases in the costs of benefits. Total governmental expenses of \$13,074,524 were offset by program revenues of \$1,569,482 and general revenues of \$10,969,837. Program revenues supported 12.51 percent of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes and grants and entitlements. These two revenue sources represent 86.44 percent of total governmental revenue. Real estate property is reappraised every six years.

The graph below presents the District's governmental activities revenue and expenses for fiscal years 2004 and 2003.

Governmental Activities - Revenues and Expenses



The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements.

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

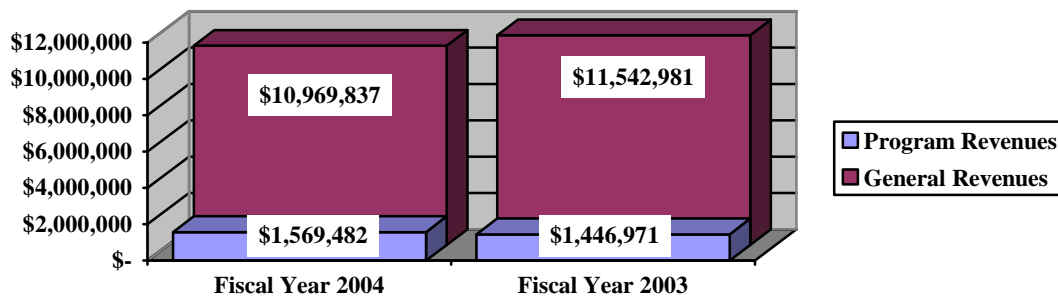
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED
(Continued)

	Governmental Activities			
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
	2004	2004	2003	2003
Program expenses				
Instruction:				
Regular	\$ 5,410,886	\$ 5,190,803	\$ 5,002,130	\$ 4,783,230
Special	1,143,435	971,286	1,162,698	991,230
Vocational	358,277	353,017	341,950	328,205
Other	116	(2,024)	2,501	326
Support services:				
Pupil	578,873	420,505	535,559	404,811
Instructional staff	623,624	593,732	581,546	569,733
Board of education	112,511	112,511	63,892	63,892
Administration	905,644	905,644	939,480	939,480
Fiscal	388,797	388,797	357,612	357,612
Operations and maintenance	1,431,694	1,430,667	1,295,705	1,295,705
Pupil transportation	833,119	825,709	792,325	785,935
Operations of non-instructional services	228,513	227,513	179,743	179,743
Extracurricular activities	454,658	75,153	414,840	61,518
Food service operations	583,016	11,729	577,112	38,702
Intergovernmental pass-through	21,361	-	24,409	24,409
<i>Total expenses</i>	<u>\$ 13,074,524</u>	<u>\$ 11,505,042</u>	<u>\$ 12,271,502</u>	<u>\$ 10,824,531</u>

The dependence upon tax and other general revenues for governmental activities is apparent, 94.21 percent of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 83.90 percent. The District's taxpayers, as a whole, are by far the primary support for District's students.

The graph below presents the District's governmental activities revenue for fiscal years 2004 and 2003.

Governmental Activities - General and Program Revenues



**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

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

The District's Funds

The District's governmental funds (as presented on the balance sheet) reported a combined fund balance of \$3,775,257, which is lower than last year's total of \$4,445,984. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2004 and 2003.

	Fund Balance June 30, 2004	Fund Balance June 30, 2003	Increase (Decrease)
General	\$ 3,579,363	\$ 4,467,930	\$ (888,567)
Other Governmental	195,894	(21,946)	217,840
<i>Total</i>	<u>\$ 3,775,257</u>	<u>\$ 4,445,984</u>	<u>\$ (670,727)</u>

General Fund

The District's general fund balance decreased \$888,567. The decrease in fund balance can be attributed to a decrease in revenues and increased expenditures. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

	2004 Amount	2003 Amount	Percentage Change
Revenues			
Taxes	\$ 5,523,256	\$ 5,991,307	(7.81) %
Tuition	36,091	99,383	(63.68) %
Earnings on investments	72,533	109,143	(33.54) %
Extracurricular	140	175	(20.00) %
Intergovernmental	4,957,527	5,178,909	(4.27) %
Other revenues	142,930	115,376	23.88 %
<i>Total</i>	<u>\$ 10,732,477</u>	<u>\$ 11,494,293</u>	(6.62) %
Expenditures			
Instruction	6,493,823	6,097,981	6.49 %
Support services	4,796,595	4,331,587	10.74 %
Operation of non-instructional services	17,337	16,427	5.54 %
Extracurricular activities	213,107	195,574	8.96 %
Facilities acquisition and construction	10,795	2,940	267.18 %
Intergovernmental pass-through	21,361	24,409	(12.49) %
<i>Total</i>	<u>\$ 11,553,018</u>	<u>\$ 10,668,918</u>	8.29 %

The decrease in tuition revenue is due to a decrease in open enrollment students. The decrease in earnings on investments can be attributed to reductions of interest rates by the Federal Reserve. The increases in instruction and support services are primarily due to increases in costs of insurance benefits.

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

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

General Fund Budgeting Highlights

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

During the course of fiscal 2004, the District amended its general fund budget one time. For the general fund, original revenues were \$11,973,799, which was increased to \$12,284,752 in the final budget. Actual revenues and other financing sources for fiscal 2004 was \$10,981,930. This represents a \$1,302,822 decrease from final budgeted revenues. This is due to a decrease in tax revenue and intergovernmental revenue.

General fund original appropriations (appropriated expenditures plus other financing uses) of \$11,890,722 were increased to \$11,890,772 in the final budget. The actual budget basis expenditures and other financing uses for fiscal year 2004 totaled \$11,712,633, which was \$178,139 less than the final budget appropriations.

Capital Assets

At the end of fiscal 2004, the District had \$2,568,036 invested in land, land improvements, building and improvements, furniture and equipment, and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal 2004 balances compared to 2003:

Capital Assets at June 30 (Net of Depreciation)		
	Governmental Activities	
	2004	2003
Land	\$ 211,027	\$ 211,027
Land improvements	72,521	88,184
Building and improvements	1,413,756	1,323,410
Furniture and equipment	271,413	308,553
Vehicles	599,319	603,203
<i>Total</i>	<u>\$ 2,568,036</u>	<u>\$ 2,534,377</u>

The overall increase in capital assets of \$33,659 is primarily due to capital outlays of \$305,535 exceeding total disposals of \$8,368 net of accumulated depreciation and depreciation expense of \$263,508 for fiscal 2004.

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

Debt Administration

At June 30, 2004, the District had no outstanding debt obligations.

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

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

Current Financial Related Activities

State funding is projected to increase slightly as per pupil funding increases are offset by enrollment decline and valuation increases. Calendar year 2003 tri-annual update resulted in increased real estate valuations, which generate some additional local revenue. This increase is offset by the state funding formula that assumes the district is receiving more local revenue even though the local increase is limited by house bill 920.

The state legislature continues to impact our business tax base. Phasing out the inventory portion of Personal Property Tax will reduce revenue over the next 5 years. Our largest taxpayer is currently appealing to the Ohio Board of Tax Appeals to reduce their equipment valuation. This adversely affects our long range planning since we do not have firm valuations to work with.

The District conducted a community survey to determine the interest in replacing/renovating school facilities. The response was a strong "not at this time". A community engagement process has been started to increase community awareness to the needs of the district.

Effective with Fiscal Year 2005, open enrollment was started. We estimate this will produce \$200,000 increased state funding with no increase in operational expense.

Contacting the District's Financial Management

This financial report is designed to provide our citizen's, taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Mr. John Coffman, Treasurer, Margaretta Local School District, 305 S. Washington Street, Castalia, Ohio 44824.

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**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

STATEMENT OF NET ASSETS
JUNE 30, 2004

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents	\$ 4,838,035
Receivables:	
Taxes	6,679,003
Accounts	799
Intergovernmental	108,958
Accrued interest	26,048
Prepayments	45,551
Materials and supplies inventory	21,699
Capital assets:	
Land	211,027
Depreciable capital assets, net	2,357,009
<i>Total capital assets, net</i>	<u>2,568,036</u>
<i>Total assets</i>	<u>14,288,129</u>
 Liabilities:	
Accounts payable	49,533
Accrued wages and benefits	1,224,002
Pension obligation payable	311,771
Intergovernmental payable	30,090
Deferred revenue	6,014,541
Long-term liabilities:	
Due within one year	145,422
Due in more than one year	619,337
<i>Total liabilities</i>	<u>8,394,696</u>
 Net Assets:	
Invested in capital assets	2,568,036
Restricted for:	
Capital projects	120,436
Other purposes	131,381
Unrestricted	3,073,580
<i>Total net assets</i>	<u>\$ 5,893,433</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

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

	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense)</u>
		<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	<u>Revenue and Changes in Net Assets</u>
				<u>Governmental Activities</u>
Governmental activities:				
Instruction:				
Regular	\$ 5,410,886	\$ 119,195	\$ 100,888	\$ (5,190,803)
Special	1,143,435	-	172,149	(971,286)
Vocational	358,277	-	5,260	(353,017)
Other	116	140	2,000	2,024
Support services:				
Pupil	578,873	-	158,368	(420,505)
Instructional staff	623,624	-	29,892	(593,732)
Board of education	112,511	-	-	(112,511)
Administration	905,644	-	-	(905,644)
Fiscal	388,797	-	-	(388,797)
Operations and maintenance	1,431,694	1,027	-	(1,430,667)
Pupil transportation	833,119	7,410	-	(825,709)
Operation of non-instructional services	228,513	1,000	-	(227,513)
Extracurricular activities	454,658	377,728	1,777	(75,153)
Food service operations	583,016	383,527	187,760	(11,729)
Intergovernmental pass-through	21,361	-	21,361	-
Totals	<u>\$ 13,074,524</u>	<u>\$ 890,027</u>	<u>\$ 679,455</u>	<u>(11,505,042)</u>

General Revenues:

Property taxes levied for:	
General purposes	5,588,570
Capital projects	278,441
Grants and entitlements not restricted to specific programs	4,972,400
Investment earnings	83,793
Miscellaneous	46,633
Total general revenues	<u>10,969,837</u>
Change in net assets	(535,205)
Net assets at beginning of year	<u>6,428,638</u>
Net assets at end of year	<u>\$ 5,893,433</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004

	General	Other Governmental Funds	Total Governmental Funds
Assets:			
Equity in pooled cash and cash equivalents	\$ 4,600,597	\$ 237,438	\$ 4,838,035
Receivables:			
Taxes	6,465,803	213,200	6,679,003
Accounts	419	380	799
Intergovernmental	-	108,958	108,958
Accrued interest	26,048	-	26,048
Due from other funds	56,309	-	56,309
Prepayments	45,551	-	45,551
Materials and supplies	-	21,699	21,699
<i>Total assets</i>	\$ 11,194,727	\$ 581,675	\$ 11,776,402
Liabilities:			
Accounts payable	\$ 43,342	\$ 6,191	\$ 49,533
Accrued wages and benefits	1,149,307	74,695	1,224,002
Compensated absences payable	104,530	-	104,530
Pension obligation payable	173,960	10,748	184,708
Intergovernmental payable	28,238	1,852	30,090
Due to other funds	-	56,309	56,309
Deferred revenue	6,115,987	235,986	6,351,973
<i>Total liabilities</i>	7,615,364	385,781	8,001,145
Fund Balances:			
Reserved for:			
Encumbrances	108,516	93,323	201,839
Materials and supplies inventory	-	21,699	21,699
Property tax unavailable for appropriation	362,583	12,907	375,490
Prepayments	45,551	-	45,551
Unreserved, undesignated, reported in:			
General fund	3,062,713	-	3,062,713
Special revenue funds	-	61,124	61,124
Capital projects funds	-	6,841	6,841
<i>Total fund balances</i>	3,579,363	195,894	3,775,257
<i>Total liabilities and fund balances</i>	\$ 11,194,727	\$ 581,675	\$ 11,776,402

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

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

Total governmental fund balances		\$ 3,775,257
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		2,568,036
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Taxes	\$ 288,972	
Interest revenue	12,767	
Intergovernmental revenue	35,693	
<i>Total</i>		337,432
Long-term liabilities, including compensated absences are not due and payable in the current period and therefore are not reported in the funds.		
Compensated absences	660,229	
Pension obligation payable	127,063	
<i>Total</i>		(787,292)
<i>Net assets of governmental activities</i>		\$ 5,893,433

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

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

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
From local sources:			
Taxes	\$ 5,523,256	\$ 276,916	\$ 5,800,172
Tuition	36,091	-	36,091
Charges for services	7,410	383,527	390,937
Earnings on investments	72,533	945	73,478
Extracurricular	140	378,728	378,868
Classroom materials and fees	63,844	-	63,844
Other local revenues	71,676	3,021	74,697
Other revenues	-	2,416	2,416
Intergovernmental - State	4,957,527	100,304	5,057,831
Intergovernmental - Federal	-	606,637	606,637
<i>Total revenue</i>	<u>10,732,477</u>	<u>1,752,494</u>	<u>12,484,971</u>
Expenditures:			
Current:			
Instruction:			
Regular	5,192,269	233,645	5,425,914
Special	956,375	204,162	1,160,537
Vocational	345,063	5,901	350,964
Other	116	-	116
Support Services:			
Pupil	419,706	157,891	577,597
Instructional staff	583,575	33,459	617,034
Board of education	112,267	244	112,511
Administration	890,035	-	890,035
Fiscal	385,933	3,199	389,132
Operations and maintenance	1,578,124	501	1,578,625
Pupil transportation	826,955	-	826,955
Food service operations	-	574,675	574,675
Operation of non-instructional services	17,337	209,939	227,276
Extracurricular activities	213,107	172,987	386,094
Facilities acquisition and construction	10,795	7,694	18,489
Intergovernmental pass-through	21,361	-	21,361
<i>Total expenditures</i>	<u>11,553,018</u>	<u>1,604,297</u>	<u>13,157,315</u>
<i>Excess of revenues over (under) expenditures</i>	<u>(820,541)</u>	<u>148,197</u>	<u>(672,344)</u>
Other financing sources (uses):			
Transfers in	-	68,026	68,026
Transfers (out)	(68,026)	-	(68,026)
<i>Total other financing sources (uses)</i>	<u>(68,026)</u>	<u>68,026</u>	<u>-</u>
<i>Net change in fund balances</i>	<u>(888,567)</u>	<u>216,223</u>	<u>(672,344)</u>
Fund balances at beginning of year	4,467,930	(21,946)	4,445,984
Increase in reserve for inventory	-	1,617	1,617
<i>Fund balances at end of year</i>	<u>\$ 3,579,363</u>	<u>\$ 195,894</u>	<u>\$ 3,775,257</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

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

Net change in fund balances - total governmental funds \$ (672,344)

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 capital outlays (\$305,535) exceed depreciation expense (\$263,508) in the current period. 42,027

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net assets. (8,368)

Governmental funds report expenditures for inventory when purchased, however, in the statement of activities they are reported as an expense when consumed. 1,617

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 54,348

Some expenses reported in the statement of activities, such as compensated absences and pension obligations do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. 47,515

Change in net assets of governmental activities \$ (535,205)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

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

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		<u>(Negative)</u>
Revenues:				
From local sources:				
Taxes	\$ 6,333,711	\$ 6,498,194	\$ 5,755,466	\$ (742,728)
Tuition	39,105	40,121	36,091	(4,030)
Transportation fees	8,029	8,237	7,410	(827)
Earnings on investments	81,275	83,386	75,018	(8,368)
Classroom materials and fees	68,804	70,591	63,500	(7,091)
Extracurricular	-	-	140	140
Other local revenues	71,268	73,119	71,774	(1,345)
Intergovernmental - State	5,371,607	5,511,104	4,957,527	(553,577)
<i>Total revenue</i>	<u>11,973,799</u>	<u>12,284,752</u>	<u>10,966,926</u>	<u>(1,317,826)</u>
Expenditures:				
Current:				
Instruction:				
Regular	5,274,152	5,254,152	5,215,340	38,812
Special	1,052,960	971,060	956,361	14,699
Vocational	363,393	365,993	358,773	7,220
Other	-	-	167	(167)
Support Services:				
Pupil	439,423	442,423	419,066	23,357
Instructional staff	551,551	598,851	589,118	9,733
Board of education	99,570	126,970	112,723	14,247
Administration	944,352	955,752	906,197	49,555
Fiscal	382,721	390,371	385,690	4,681
Operations and maintenance	1,601,341	1,643,791	1,607,615	36,176
Pupil transportation	905,059	856,859	819,762	37,097
Operation of non-instructional services	19,500	19,500	17,305	2,195
Extracurricular activities	206,200	214,550	209,330	5,220
Facilities acquisition and construction	15,000	15,000	10,795	4,205
Intergovernmental pass-through	28,000	28,000	21,361	6,639
<i>Total expenditures</i>	<u>11,883,222</u>	<u>11,883,272</u>	<u>11,629,603</u>	<u>253,669</u>
<i>Excess of revenues over (under) expenditures</i>	<u>90,577</u>	<u>401,480</u>	<u>(662,677)</u>	<u>(1,064,157)</u>
Other financing sources (uses):				
Transfers in	-	-	15,004	15,004
Transfers (out)	(7,500)	(7,500)	(83,030)	(75,530)
<i>Total other financing sources (uses)</i>	<u>(7,500)</u>	<u>(7,500)</u>	<u>(68,026)</u>	<u>(60,526)</u>
<i>Net change in fund balance</i>	83,077	393,980	(730,703)	(1,124,683)
Fund balance at beginning of year	4,925,827	4,925,827	4,925,827	-
Prior year encumbrances appropriated	312,122	312,122	312,122	-
<i>Fund balance at end of year</i>	<u>\$ 5,321,026</u>	<u>\$ 5,631,929</u>	<u>\$ 4,507,246</u>	<u>\$ (1,124,683)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2004

	Private-Purpose Trust	
	Scholarship	Agency
Assets:		
Equity in pooled cash and cash equivalents	\$ 278,857	\$ 42,855
<i>Total assets</i>	278,857	\$ 42,855
Liabilities:		
Due to students	-	\$ 42,855
<i>Total liabilities</i>	-	\$ 42,855
Net Assets:		
Held in trust for scholarships	278,857	
<i>Total net assets</i>	\$ 278,857	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

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

	Private-Purpose Trust
	Scholarship
Additions:	
Interest	\$ 5,789
Gifts and contributions	15,745
	<u>21,534</u>
<i>Total additions</i>	<u>21,534</u>
Deductions:	
Scholarships awarded	24,897
	<u>24,897</u>
<i>Change in net assets</i>	(3,363)
Net assets at beginning of year	282,220
	<u>282,220</u>
<i>Net assets at end of year</i>	<u><u>\$ 278,857</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

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

1. DESCRIPTION OF THE SCHOOL DISTRICT

The Margarettta Local School District (the District) operates under a locally-elected five-member Board form of government and provides educational services mandated by state and/or federal agencies. Located in Erie County, the District serves the Village of Margarettta and surrounding townships.

The District is organized under Sections 2 and 3, Article VI of the Constitution of the State of Ohio. Under such laws there is no authority for a District to have a charter or adopt local laws. The legislative power of the District is vested in the Board of Education, consisting of five members elected at large for staggered four-year terms.

The District is the 378th largest in the state of Ohio among 613 public school districts in terms of enrollment. It currently operates two elementary schools and one high school. The District employs 74 non-certificated employees and 103 certificated (including administrative) employees to provide services to approximately 1,467 students.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "*The Financial Reporting Entity*". The reporting entity is composed of the primary government, component units and other organization that are included to ensure that the basic financial statements of the District are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the District. For the District, this includes general operations, foods service, preschool and student related activities of the District.

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

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

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

JOINTLY GOVERNED ORGANIZATIONS

Bay Area Council of Governments

The Bay Area Council of Governments (BACG) is a jointly governed organization. Members of the BACG consist of 26 school districts representing 7 counties (Ottawa, Sandusky, Seneca, Erie, Huron, Wood, and Crawford). The BACG was formed for the purpose of purchasing goods and services at a lower cost. The items currently being purchased through the council of governments are natural gas and insurance. The only cost to the District is an administrative charge if it participates in purchasing through the BACG. The membership of BACG consists of the superintendent of each participating school district. The Board of Directors of the BACG consists of one elected representative of each county, the superintendent of the fiscal agent and two non-voting members (administrator and fiscal agent). Members of the Board serve staggered two-year terms. Financial information can be obtained by contacting the Erie-Huron-Ottawa ESC, which serves as fiscal agent, at 2900 South Columbus Avenue, Sandusky, Ohio 44870.

Northern Ohio Educational Computer Association

The Northern Ohio Educational Computer Association (NOECA) is a jointly governed organization, which is a computer consortium. NOECA is an association of 41 public school districts formed for the purpose of applying modern technology (with the aid of computers and other electronic equipment) to administrative and instructional functions among member school district. The NOECA Board of Directors consists of two representatives from each county in which participating school districts are located, the chairman of each of the operating committees, and a representative from the fiscal agent. Financial information can be obtained from Betty Schwiefert, who serves as Controller, 2900 South Columbus Avenue, Sandusky, Ohio 44870.

PUBLIC ENTITY RISK POOLS

Ohio School Boards Association Workers' Compensation Group Rating Plan

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

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

Huron-Erie School Employees Insurance Association

The Huron-Erie School Employees Insurance Association (Association) is a public entity risk pool comprised of 14 districts. The Association assembly consists of a superintendent or designated representative from each participating district and the program administrator. The Association is governed by a board of directors chosen from the general membership. The

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

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

degree of control exercised by any participating district is limited to its representation on the board. Financial information can be obtained by contacting the program administrator at the Huron-Erie School Employees Insurance Association, located at 2900 Columbus Avenue, Sandusky, Ohio 44870.

B. Fund Accounting

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

GOVERNMENTAL FUNDS

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

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

Other governmental funds of the District are used to account for financial resources to be used for the acquisition, construction, or improvement of capital facilities other than those financed by trust funds and for grants and other resources whose use is restricted to a particular purpose.

PROPRIETARY FUNDS

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

FIDUCIARY FUNDS

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

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

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

C. Measurement Focus

Government-wide Financial Statements - The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the primary government, except fiduciary funds, are included on the statement of net assets.

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

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

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

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

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

D. Basis of Accounting

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

Revenues - Exchange and Non-exchange Transactions - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

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

expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of fiscal year-end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements, and donation. On an accrual basis, revenue from property taxes is recognized in the fiscal year for 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 fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

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

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

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

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

E. Budgets

The 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

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

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

appropriated. The legal level of budgetary control is at the fund level. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

Tax Budget:

Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The express purpose of this budget document is to reflect the need for existing (or increased) tax rates. By no later than January 20, the Board-adopted budget is filed with Erie County Budget Commission for rate determination.

Estimated Resources:

By April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commissions' Certificate of Estimated Resources, which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered cash balances from the preceding year. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statements reflect the amounts in the original and final amended Certificates issued during the fiscal year.

Appropriations:

Upon receipt from the County Auditor of an amended certificate of estimated resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution is enacted by the Board of Education. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the District. The appropriation resolution, by fund, must be within the estimated resources as certified by the County Budget Commission and the total of expenditures may not exceed the appropriation totals at any level of control. Any revisions that alter the fund level must be approved by the Board of Education.

The Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the most recent Certificate of Estimated Resources. During the year, all supplemental appropriations were legally enacted.

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 budget amounts reflect the first appropriation for the fund that covered the entire fiscal year, including amounts automatically carried over from prior year. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the year. The District did not properly limit appropriations to estimated resources, or limit expenditures to amounts appropriated as required by the Ohio Revised Code.

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

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

Lapsing of Appropriations:

Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Cash disbursements plus encumbrances may not legally exceed budgeted appropriations at the fund level. The District did not properly certify the availability of funds prior to expenditures being incurred as required by the Ohio Revised Code.

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

F. Cash and Investments

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

During fiscal year 2004, investments were limited to nonnegotiable certificates of deposits, federal agency securities, and investments in the State Treasury Asset Reserve of Ohio (STAR Ohio). Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts, such as nonnegotiable certificates of deposit, are recorded at cost.

The District has invested funds in STAR Ohio during fiscal 2004. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2004.

Under existing Ohio statutes all investment earning are assigned to the general fund unless statutorily required to be credited to a specific fund. 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 2004 amounted to \$72,533, which includes \$1,616 assigned from other District funds.

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

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

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

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

G. Inventory

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

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

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

H. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of five thousand dollars. The 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.

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

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Land improvements	20 years
Buildings and improvements	20 - 40 years
Furniture and equipment	5 - 20 years
Vehicles	6 - 10 years

I. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental activities column on the statement of net assets.

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J. Compensated Absences

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

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

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

K. Accrued Liabilities and Long-Term Obligations

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

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

L. Fund Balance Reserves

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

M. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consist of capital assets, net of accumulated depreciation. Net assets are

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reported as restricted when there are limitations imposed on their use either through the enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

N. Prepayments

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These items are reported as assets on the balance sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed. At fiscal year-end, because prepayments are not available to finance future governmental fund expenditures, the fund balance is reserved by an amount equal to the carrying value of the asset on the fund financial statements.

O. Estimates

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

P. Interfund Activity

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

Q. Extraordinary and Special Items

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

3. ACCOUNTABILITY AND COMPLIANCE

Deficit Fund Balances

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

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	Deficit
Nonmajor Funds	
Teacher Development	\$ 1,441
SchoolNet Connectivity	1,143
Summer Intervention	7,054
Title I	35,628
Title V	1,838
EHA Preschool	35
Classroom Reduction	18,067

These funds did not comply with Ohio state law, which does not permit a cash basis deficit at year-end. The general fund is liable for any deficits in these funds and provides transfers when cash is required, see Note 5 for these transfers.

4. EQUITY IN POOLED CASH AND CASH EQUIVALENTS

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

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

Inactive deposits are public deposits the Board of Education has identified as not required for use within the current 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. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings accounts, including passbook accounts.

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;

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2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasury Asset Reserve of Ohio (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed 180 days in an amount not to exceed 25 percent of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt instrument rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

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

Deposits: At fiscal year-end, the carrying amount of the District's deposits was \$1,590,919 and the bank balance was \$1,703,512. These balances included \$1,239,189 in nonnegotiable certificates of deposit. Of the bank balance:

1. \$200,000 was covered by federal depository; and
2. \$1,503,512 was covered by uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the District's name. Although all

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state statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the District to a successful claim by the FDIC.

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

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

	Category 3	Fair Value
Federal agency securities	\$ 3,349,997	\$ 3,349,997
Investment in STAR Ohio		218,831
<i>Total investments</i>		\$ 3,568,828

The federal agency securities have maturity dates ranging from July 2004 to January 2006.

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

	Cash and Cash Equivalents/ Deposits	Investments
GASB Statement No. 9	\$ 5,159,747	\$ -
Investments of the cash management pool:		
Investment in STAR Ohio	(218,831)	218,831
Federal agency securities	(3,349,997)	3,349,997
GASB Statement No. 3	\$ 1,590,919	\$ 3,568,828

5. INTERFUND TRANSACTIONS

A. Interfund balances at June 30, 2004 as reported on the fund statements, consist of the following amounts due to/from other funds:

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Receivable Fund	Payable Fund	Amount
General	Nonmajor governmental funds	\$ 56,309

The primary purpose of the interfund balances is to cover negative cash balances in specific funds where revenues were not received by June 30. These interfund balances will be repaid once the anticipated revenues are received.

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2004 are reported on the statement of net assets.

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

Transfers to Nonmajor Governmental funds from:	
General Fund	\$ 68,026

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, and (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Interfund transfers between governmental funds are eliminated for reporting in the statement of activities.

6. PROPERTY TAXES

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

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

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

Tangible personal property tax revenue received during calendar 2004 (other than public utility property) represents the collection of 2004 taxes. Tangible personal property taxes received in

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(Continued)

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

The District receives property taxes from Erie and Sandusky County Auditors. The County Auditors periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2004, are available to finance fiscal year 2004 operations.

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

The amount available as an advance at June 30, 2004 was \$362,583 in the general fund, and \$12,907 in the Permanent Improvement capital projects fund. These amounts are recorded as revenue. The amount available as an advance at June 30, 2003, was \$504,793 in the general fund, and \$17,231 in the Permanent Improvement capital projects fund. The amount available as advance can vary depending upon when tax bills are sent by the County Auditors.

On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue, while on a modified accrual basis the revenue has been deferred.

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

	2003 Second Half Collections		2004 First Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/residential and other real estate	\$ 127,009,610	75.33%	\$ 145,739,240	75.82%
Public utility personal	10,518,850	6.24%	9,587,340	4.99%
Tangible personal property	31,080,555	18.43%	36,894,585	19.19%
<i>Total</i>	<u>\$ 168,609,015</u>	<u>100.00%</u>	<u>\$ 192,221,165</u>	<u>100.00%</u>
 Tax rate per \$1,000 of assessed valuation	 <u>\$ 56.80</u>		 <u>\$ 56.80</u>	

7. RECEIVABLES

Receivables at June 30, 2004 consisted of taxes, accounts (billings for user charged services and student fees), accrued interest, and intergovernmental grants and entitlements. All receivables are

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considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs, and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the statement of net assets follows:

Governmental Activities:	
Property taxes	\$ 6,679,003
Accounts	799
Intergovernmental	108,958
Accrued interest	26,048
<i>Total</i>	<u><u>\$ 6,814,808</u></u>

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

8. CAPITAL ASSETS

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

	Balance 06/30/03	Additions	Deductions	Balance 06/30/04
Capital assets, not being depreciated:				
Land	\$ 211,027	\$ -	\$ -	\$ 211,027
Capital assets, being depreciated:				
Land improvements	324,329	-	-	324,329
Building and improvements	4,443,503	151,769	-	4,595,272
Furniture and equipment	1,216,380	40,652	-	1,257,032
Vehicles	1,284,963	113,114	(83,680)	1,314,397
<i>Total capital assets, being depreciated</i>	<u>7,269,175</u>	<u>305,535</u>	<u>(83,680)</u>	<u>7,491,030</u>
Less: accumulated depreciation:				
Land improvements	(236,145)	(15,663)	-	(251,808)
Building and improvements	(3,120,093)	(61,423)	-	(3,181,516)
Furniture and equipment	(907,827)	(77,792)	-	(985,619)
Vehicles	(681,760)	(108,630)	75,312	(715,078)
<i>Total accumulated depreciation</i>	<u>(4,945,825)</u>	<u>(263,508)</u>	<u>75,312</u>	<u>(5,134,021)</u>
<i>Governmental activities capital assets, net</i>	<u><u>\$ 2,534,377</u></u>	<u><u>\$ 42,027</u></u>	<u><u>\$ (8,368)</u></u>	<u><u>\$ 2,568,036</u></u>

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Depreciation expense was charged to governmental functions as follows:

Instruction:			
Regular	\$	58,127	
Vocational		5,948	
Support Services:			
Administration		12,800	
Operations and Maintenance		3,202	
Pupil Transportation		111,528	
Extracurricular Activities		64,407	
Food Service Operation		7,496	
<i>Total depreciation expense</i>	<u>\$</u>	<u>263,508</u>	

9. LONG-TERM OBLIGATIONS

A. The District's long-term obligations during the year consist of the following:

	Balance Outstanding 06/30/03	Additions	Reductions	Balance Outstanding 06/30/04	Amounts Due in One Year
Compensated absences	\$ 772,198	\$ 117,192	\$ (124,631)	\$ 764,759	\$ 145,422

Compensated Absences: Compensated absences will be paid from the fund from which the employee's salaries are paid.

B. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9 percent of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1 percent of the property valuation of the District.

The effects of these debt limitations at June 30, 2004 are a voted debt margin of \$17,299,905 and an unvoted debt margin of \$192,221.

10. OTHER EMPLOYEE BENEFITS

A. 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 days of vacation per year, depending upon length of service. Accumulated unused vacation time is paid to classified employees upon termination of employment. Teachers do not earn vacation time.

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Each employee earns sick leave at the rate of one and one-fourth days per month. Upon retirement, payment is made for thirty percent of the total sick leave accumulation, up to a maximum accumulation of sixty-three days for certificated employees and thirty-three percent of total sick leave accumulation up to a maximum of seventy days for classified employees. An employee receiving such payment must meet the retirement provisions set by STRS and SERS.

B. Insurance Benefits

The District provides life insurance and accidental death and dismemberment insurance in the amount of \$150,000 to the Superintendent, \$75,000 to the Principals and Treasurer and \$10,000 to \$20,000 to all other classified employees.

11. RISK MANAGEMENT

A. Comprehensive

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 2004, the District has contracted with Nationwide Insurance to provide insurance coverage in the following amounts:

<u>Limits of Coverage</u>	<u>Carrier</u>	<u>Coverage</u>	<u>Deductible</u>
General liability:			
Each occurrence	Harcum-Hyre	\$ 1,000,000	\$ -
Aggregate		3,000,000	-
Fleet:			
Comprehensive	Dawson Companies	300,000	250
Collision		500	
Umbrella liability	Harcum-Hyre	2,000,000	-
Building and contents	Harcum-Hyre	25,020,523	10,000

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

B. Huron-Erie School Employees Insurance Association

The District has contracted with the Huron-Erie School Employees Insurance Association (Association) to provide medical/surgical, dental, and life insurance benefits for its employees and their covered dependents. The Association is a shared risk pool comprised of 14 school districts that provide public education within Erie and Huron Counties. The Districts pay monthly contributions that are placed in a common fund from which eligible claims and expenses are paid for employees of participating school districts and their covered dependents. Claims are paid for all participants regardless of claims flow.

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In the event of withdrawal, the District shall assume and be responsible for payment of all claims of its eligible employees, families, and dependents from the effective date of withdrawal, regardless of when such claims were incurred, processed, or presented to the Association, insurance provider, insurance consultant, or any other appropriate or authorized person or representative; provided further, any such claims, which are paid after the effective date of withdrawal by the Association insurance provider or insurance consultant, or charged to such parties, shall be reimbursed in full by any withdrawing member upon demand of the Association.

Post employment health care is provided to plan participants or their beneficiaries through the respective retirement systems discussed in Note 13. As such, no funding provisions are required by the District.

C. OSBA Group Workers' Compensation Rating Plan

For fiscal year 2004, the District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 2.A.). The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the state based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP.

A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control, and actuarial services to the GRP.

12. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State Statute Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476, or by calling (614) 222-5853.

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund

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pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The District's required contributions to SERS for pension obligations for the fiscal years ended June 30, 2004, 2003, and 2002 were \$171,033, \$145,143, and \$91,399, respectively; 44.42 percent has been contributed for fiscal year 2004 and 100 percent for the fiscal years 2003 and 2002. \$95,063 represents the unpaid contribution for fiscal year 2004.

B. State Teachers Retirement System

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

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

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

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2004, 13 percent of annual covered salary was the portion used to fund pension obligations.

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

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

For fiscal year 2003, 13 percent of annual covered salary was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The District's required contributions to STRS for pension obligations for the fiscal years ended June 30, 2004, 2003, and 2002 were \$695,404, \$682,646, and \$463,949, respectively; 82.35 percent has been contributed for fiscal year 2004 and 100 percent for the fiscal years 2003 and 2002. \$122,713 represents the unpaid contribution for fiscal year 2004. Contributions to the DC and Combined Plans for fiscal year 2004 were \$4,508 made by the District and \$11,177 made by plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS or the STRS have an option to choose Social Security or the SERS/STRS. As of June 30, 2004, certain members of the Board of Education have elected Social Security. The District's liability is 6.2 percent of wages paid.

13. POSTEMPLOYMENT BENEFITS

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

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For this fiscal year, the State Teachers Retirement Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve fund. For the District, this amount equaled \$53,493 during fiscal 2004.

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

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than 25 years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

For this fiscal year, employer contributions to fund health care benefits were 4.91 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay has been established at \$25,400. The

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

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

surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2004 were \$223.443 million and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million and SERS had approximately 62,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$126,790 during the 2004 fiscal year.

14. BUDGETARY BASIS OF ACCOUNTING

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

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

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

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

Net Change in Fund Balance	
	General Fund
Budget basis	\$ (730,703)
Net adjustment for revenue accruals	(234,449)
Net adjustment for expenditure accruals	(74,389)
Adjustment for encumbrances	150,974
GAAP basis	\$ (888,567)

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

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

15. CONTINGENCIES

A. Grants

The District receives significant financial assistance from numerous federal, state, and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the District. However in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the District.

B. Litigation

The District is party to a legal proceeding seeking damages or injunctive relief generally incidental to its operations and spending projects. The District management is of the opinion that disposition of the claim and legal proceedings will not have a material effect, if any, on the financial condition of the District.

C. State School Funding Decision

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

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

16. STATUTORY RESERVES

The District is required by state law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2004, the reserve activity was as follows:

	Textbooks/ Instructional Materials	Capital Acquisition
Set-aside cash balance as of June 30, 2003	\$ (1,053,232)	\$ -
Current year set-aside requirement	209,542	209,542
Current year offsets	-	(251,171)
Qualifying disbursements	(542,943)	(406,955)
<i>Total</i>	\$ (1,386,633)	\$ (448,584)
Balance carried forward to FY 2005	\$ (1,386,633)	\$ -

The District had offsets and qualifying disbursements during the year that reduced the set-aside amounts below zero for the textbook/instructional materials reserve, this extra amount may be used

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

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

to reduce the set-aside requirement for future years. The negative amount is therefore presented as being carried forward to next fiscal year.

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

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**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2004

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Federal CFDA Number	Grant Number
U.S. DEPARTMENT OF AGRICULTURE		
<i>Passed Through Ohio Department of Education</i>		
<u>Nutrition Cluster:</u>		
National School Lunch Program	10.555	046805-LLP4-2003 046805-LLP4-2003 046805-VGS1-2003
Food Distribution Program	10.550	-
Total U.S. Department of Agriculture - Nutrition Cluster		
U.S. DEPARTMENT OF EDUCATION		
<i>Passed Through Ohio Department of Education</i>		
<u>Special Education Cluster:</u>		
Special Education Grants to States (IDEA Part B)	84.027	046805-6B-SF-2003P 046805-6B-SF-2004P
Special Education - Preschool Grant	84.173	046805-PG-S1-2003P 046805-PG-S1-2004P
<i>Total Special Education Cluster</i>		
Grants to Local Educational Agencies (ESEA Title I)	84.010	046805-C1-S1-2002 046805-C1-S1-2003 046805-C1-S1-2004
<i>Total Grants to Local Educational Agencies</i>		
Title V, Innovative Programs	84.298	046805-C2-S1-2003 046805-C2-S1-2004
<i>Total Title V, Innovative Programs</i>		
Safe and Drug-Free Schools and Communities State Grant	84.186	046805-DR-S1-2003 046805-DR-S1-2004
<i>Total Safe and Drug-Free Schools and Communities State Grant</i>		
Technology Literacy Challenge Fund	84.318	046805-TJ-S1-2003 046805-TJ-S1-2004
<i>Total Technology Literacy Challenge Fund</i>		
Class Size Reduction	84.340	046805-CR-S1-2002
Improving Teacher Quality State Grant	84.367	046805-TR-S1-2003 046805-TR-S1-2004
<i>Total Improving Teacher Quality State Grant</i>		
Eisenhower Professional Development State Grant	84.281	046805-MS-S1-2002
Total U.S. Department of Education		
Total Federal Financial Assistance		

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THIS SCHEDULE.

<u>Receipts</u>	<u>Non-Cash Receipts</u>	<u>Disbursements</u>	<u>Non-Cash Disbursements</u>
\$ 38,095		\$ 38,095	
68,889		68,889	
3,329		3,329	
	\$ 55,596		\$ 55,596
<u>110,313</u>	<u>55,596</u>	<u>110,313</u>	<u>55,596</u>
29,565		10,395	
135,937		165,363	
6,735			
8,181		8,181	
<u>180,418</u>		<u>183,939</u>	
58,309		483	
122,119		24,209	
<u>180,428</u>		<u>127,833</u>	
7,102		127,010	
7,889		2,720	
<u>14,991</u>		<u>9,062</u>	
5,413		11,782	
6,075			
<u>11,488</u>		<u>6,075</u>	
1,227			
3,172		4,240	
<u>4,399</u>		<u>4,240</u>	
19,787		12,859	
57,735		14,806	
<u>77,522</u>		<u>52,535</u>	
734		67,341	
<u>469,980</u>		<u>413,246</u>	
<u>\$ 580,293</u>	<u>\$ 55,596</u>	<u>\$ 523,559</u>	<u>\$ 55,596</u>

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FISCAL YEAR ENDED JUNE 30, 2004**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Expenditures (the Schedule) summarizes activity of the District's Federal award programs. The schedule has been prepared on the cash basis of accounting.

NOTE B - CHILD NUTRITION CLUSTER

Program regulations do not require the District to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. This non-monetary assistance (expenditures) is reported in the Schedule at the fair market value of the commodities received.

Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed Federal monies are expended first.

NOTE C - MATCHING REQUIREMENTS

Certain Federal programs require that the District contribute non-Federal funds (matching funds) to support the Federally-funded programs. The District has complied with the matching requirements. The expenditure of non-Federal matching funds is not included on the Schedule.



**Auditor of State
Betty Montgomery**

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

Margaretta Local School District
Erie County
305 South Washington Street
Castalia, Ohio 44824-9263

To the Board of Education:

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Margaretta Local School District (the District) as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 3, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could directly and materially affect determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2004-001 through 2004-004. We also noted a certain immaterial instance of noncompliance that we have reported to the District's management in a separate letter dated March 3, 2005.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to

the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report that we have reported to the District's management in a separate letter dated March 3, 2005.

This report is intended for the information and use of management, the Board of Education, federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

March 3, 2005



**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO MAJOR FEDERAL PROGRAMS AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Margaretta Local School District
Erie County
305 South Washington Street
Castalia, Ohio 44824-9263

To the Board of Education:

Compliance

We have audited the compliance of the Margaretta Local School District, Erie County, (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. The District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over

compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information and use of management, the Board of Education, federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



Betty Montgomery
Auditor of State

March 3, 2005

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2004

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	Special Education Cluster (CFDA # 84.027 and 84.173)
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

**2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

FINDING NUMBER 2004-001

Noncompliance Citation

Ohio Revised Code § 5705.41(D)(1) prohibits a subdivision or taxing entity from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance.

**FINDING NUMBER 2004-001
(Continued)**

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in §§ 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

- 1. "Then and Now" certificate** – If the fiscal officer can certify that both at the time that the contract or order was made ("then"), and at the time that the fiscal officer is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the District can authorize the drawing of a warrant for the payment of the amount due. The District has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution. Amounts of less than \$1,000 (\$3,000 after April 7, 2003) may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. The does not eliminate any otherwise applicable requirement for approval of expenditures by the District.
- 2. Blanket Certificate** – Fiscal officers may prepare "blanket" certificates not exceeding \$5,000 against any specific line item account over a period not exceeding three months or running beyond the current year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation. The three month limitation for blanket certificates was eliminated and the threshold was changed to "an amount established by resolution or ordinance adopted by the legislative authority," effective September 26, 2003.
- 3. Super Blanket Certificate** – The District may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year (or quarterly spending plan for counties). More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

The District did not properly certify the availability of funds prior to purchase commitment for 70 percent of expenditures tested and there was no evidence that the District followed the aforementioned exceptions. The failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the District's funds exceeding budgetary spending limitations, we recommend that the Treasurer certify that the funds are or will be available prior to obligation by the District. When prior certification is not possible, "then and now" certification should be used.

We recommend the District certify purchases to which § 5705.41(D) applies. The most convenient certification method is to use purchase orders that include certification language § 5705.41(D) requires to authorize disbursements. The Treasurer should sign the certification at the time the District incurs a commitment, and only when the requirements of § 5705.41 (D) are satisfied. The Treasurer should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

FINDING NUMBER 2004-002

Noncompliance Citation

Ohio Revised Code § 5705.10 requires all revenue derived from a source other than the general property tax and which the law prescribes shall be used for a particular purpose be paid into a special revenue fund for such purpose. Deficit fund balances indicate that monies from one fund are used to pay obligations of another fund. As of June 30, 2004, the following special revenue funds had deficit balances as shown:

<u>Fund</u>	<u>Deficit Balance</u>
Special Revenue Funds:	
Professional Development Fund 416	\$ (1,439)
One Network / Network Connectivity Fund 451	(1,144)
Summer School Intervention Fund 460	(7,054)
Title VI-B Fund 516	(29,426)
Title I Fund 572	(9,844)
Chapter 2 Fund 573	(1,838)
Classroom Reduction Fund 590	(5,565)

The deficit balances in these funds were associated with expenditures that were paid from these funds that will be reimbursed through grant monies. We recommend the Treasurer have the Board advance funds in accordance with the provisions of the Ohio Revised Code to cover these deficits pending receipt of the grant funds.

FINDING NUMBER 2004-003

Noncompliance Citation

Ohio Revised Code § 5705.39 provides in part that the total appropriations from each fund shall not exceed the total estimated revenue available for the expenditure therefrom, as certified by the county budget commission. As of June 30, 2004, the following funds had total appropriations in excess of the certified estimated resources:

<u>Fund</u>	<u>Estimated Resources</u>	<u>Appropriations</u>	<u>Excess</u>
Capital Project Permanent Improvement Fund 003	\$ 131,079	\$ 225,000	\$ (93,921)
Food Service Fund 006	\$ 516,810	\$ 540,000	\$ (23,190)

Sufficient revenues were available in the Permanent Improvement Fund to permit the District to have obtained an amended certificate. The failure to limit appropriations to amounts certified could allow expenditures to exceed available resources and create deficit fund balances.

We recommend the Treasurer monitor total fund appropriations as compared to estimated resources and submit amendments to the County Budget Commission or reduce appropriations if sufficient revenues are not available.

FINDING NUMBER 2004-004

Noncompliance Citation

Ohio Revised Code § 5705.41(B) prohibits a subdivision or taxing unit from making an expenditure unless it has been lawfully appropriated. The following funds had expenditures in excess of appropriations for the fiscal year ended June 30, 2004:

<u>Fund</u>	<u>Appropriations</u>	<u>Expenditures</u>	<u>Excess</u>
Special Revenue Funds			
Public School Support Fund 018	\$ 3,990	\$ 213,533	\$ (209,543)
Jennings / EI Grant Fund 019		2,138	(2,138)
Athletic Fund 300	1,137	173,088	(171,951)
Professional Development Grant Fund 416		834	(834)
EMIS Fund 432	1,834	7,916	(6,082)
One Net/Network Connectivity Fund 451		10,278	(10,278)
SchoolNet Professional Development Fund 452		4,168	(4,168)
Summer School Intervention Fund 460	155	33,061	(32,906)
Miscellaneous State Grants Fund 499		14,813	(14,813)
Title VI-B Fund 516		175,758	(175,758)
Title I Fund 572		152,525	(152,525)
Chapter 2 Fund 573	295	11,783	(11,488)
Safe and Drug Free School Fund 584		6,075	(6,075)
Pre-School Fund 587		8,181	(8,181)
Classroom Reduction Fund 590	853	80,200	(79,347)
Miscellaneous Federal Grants Fund 599		4,740	(4,740)
Trust Funds			
Expendable Trust Scholarship Fund 007		13,697	(13,697)
Nonexpendable Trust Scholarship Fund 008	23	11,223	(11,200)

Management was advised that failure to have adequate appropriations in place at the time expenditures are being made could result in expenditures exceeding available resources, further resulting in deficit spending practices.

We recommend the Treasurer not certify the availability of funds and deny payment requests exceeding appropriations. The Treasurer may request the Board to approve increased expenditure levels by increasing appropriations and amending estimated resources, if necessary.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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None.

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2004

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2003-001	ORC § 5705.41(D) Failure of fiscal officer to certify expenditures.	No.	Not corrected. Reissued as finding 2004-001.
2003-002	ORC § 5705.10 deficit cash basis fund balances.	No.	Not corrected. Reissued as finding 2004-002.
2003-003	ORC § 5705.39 appropriations in excess of estimated resources.	No.	Not corrected. Reissued as finding 2004-003.
2003-004	ORC § 5705.41(B) Expenditures exceeding appropriations.	No.	Not corrected. Reissued as finding 2003-004.



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MARGARETTA LOCAL SCHOOL DISTRICT

ERIE 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
APRIL 12, 2005**