



**MARGARETTA LOCAL SCHOOL DISTRICT  
ERIE COUNTY**

**SINGLE AUDIT**

**FOR THE YEAR ENDED JUNE 30, 2005**



**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, the major fund, and the aggregate remaining fund information of the Margaretta Local School District, Erie County, Ohio (the School District), as of and for the year ended June 30, 2005, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the Margaretta Local School District, Erie County, Ohio, as of June 30, 2005, 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.

As described in Note 3, during the year ended June 30, 2005, the School District implemented Governmental Accounting Standards Board Technical Bulletin 2004-02, *Recognition of Pension and Other Postemployment Benefit Expenditures/Expense and Liabilities by Cost-Sharing Employers*.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 15, 2006, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

We conducted our audit to opine on the financial statements that collectively comprise the School 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 also 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.



**Betty Montgomery**  
Auditor of State

May 15, 2006

**MARGARETTA LOCAL SCHOOL DISTRICT  
ERIE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
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, 2005. 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 2005 are as follows:

- In total, net assets of governmental activities decreased \$314,221 which represents a 5.26% decrease from 2004.
- General revenues accounted for \$11,573,588 in revenue or 87.38% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$1,672,278 or 12.62% of total revenues of \$13,245,866.
- The District had \$13,560,087 in expenses related to governmental activities; only \$1,672,278 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 \$11,573,588 were not adequate to provide for these programs.
- The District's only major governmental fund is the general fund. The general fund had \$11,746,834 in revenues and \$11,778,493 in expenditures and other financing uses. During fiscal 2005, the general fund's fund balance decreased \$31,659 from \$3,471,248 to \$3,439,589.

**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 2005?" The *Statement of Net Assets* and the *Statement of Activities* answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

**MARGARETTA LOCAL SCHOOL DISTRICT  
ERIE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED  
(Continued)**

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* than can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the basic financial statements.

***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.

**The District as a Whole**

The Statement of Net Assets provides the perspective of the District as a whole. Certain amounts have been restated for 2004 detailed in Note 3.B in the notes to the financial statements.



**MARGARETTA LOCAL SCHOOL DISTRICT  
 ERIE COUNTY  
 MANAGEMENT'S DISCUSSION AND ANALYSIS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
 UNAUDITED  
 (Continued)**

The table below provides a summary of the District's net assets for 2005 and 2004.

	<b>Net Assets</b>	
	Governmental Activities 2005	Restated Governmental Activities 2004
	<u>2005</u>	<u>2004</u>
<b><u>Assets</u></b>		
Current and other assets	\$ 11,080,593	\$ 11,720,093
Capital assets, net	<u>2,683,919</u>	<u>2,651,869</u>
Total assets	<u>13,764,512</u>	<u>14,371,962</u>
<b><u>Liabilities</u></b>		
Current liabilities	7,339,652	7,629,937
Long-term liabilities	<u>761,815</u>	<u>764,759</u>
Total liabilities	<u>8,101,467</u>	<u>8,394,696</u>
<b><u>Net Assets</u></b>		
Invested in capital assets	2,683,919	2,651,869
Restricted	122,063	251,817
Unrestricted	<u>2,857,063</u>	<u>3,073,580</u>
Total net assets	<u>\$ 5,663,045</u>	<u>\$ 5,977,266</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2005, the District's assets exceeded liabilities by \$5,663,045.

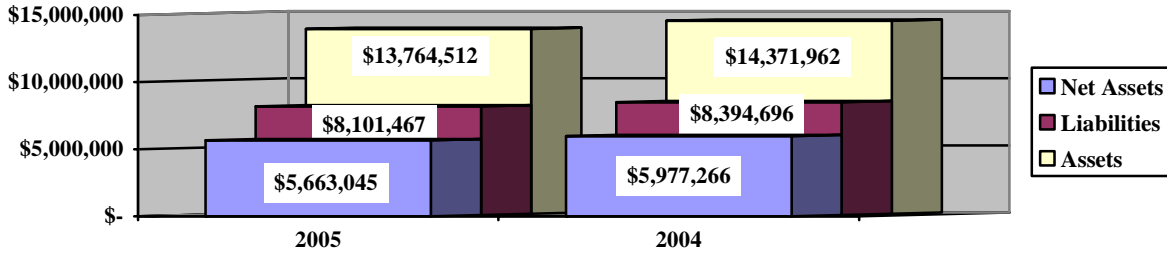
At fiscal year-end, capital assets represented 19.50% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of depreciation at June 30, 2005, were \$2,683,919. These capital assets are used to provide services to the students and are not available for future spending.

A portion of the District's net assets, \$122,063, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$2,857,063 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, 2005  
UNAUDITED  
(Continued)**

**Governmental Activities**



The table below shows the change in net assets for fiscal years 2005 and 2004.

**Change in Net Assets**

	Governmental Activities 2005	Restated Governmental Activities 2004
<b><u>Revenues</u></b>		
Program revenues:		
Charges for services and sales	\$ 999,936	\$ 890,027
Operating grants and contributions	672,342	679,455
General revenues:		
Property taxes	6,151,893	5,867,011
Grants and entitlements	5,210,923	4,972,400
Investment earnings	108,165	83,793
Other	102,607	46,633
<b>Total revenues</b>	<b>\$ 13,245,866</b>	<b>\$ 12,539,319</b>

**MARGARETTA LOCAL SCHOOL DISTRICT  
ERIE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED  
(Continued)**

**Change in Net Assets**

	<u>Governmental Activities 2005</u>	<u>Governmental Activities 2004</u>
<b><u>Expenses</u></b>		
Program expenses:		
Instruction:		
Regular	\$ 5,417,337	\$ 5,327,053
Special	1,315,336	1,143,435
Vocational	384,969	358,277
Other	7,880	116
Support services:		
Pupil	613,031	578,873
Instructional staff	714,617	623,624
Board of education	153,606	112,511
Administration	947,001	905,644
Fiscal	380,078	388,797
Operations and maintenance	1,515,112	1,431,694
Pupil transportation	834,605	833,119
Operations of non-instructional services:		
Non-instructional services	213,734	228,513
Food service operations	603,615	583,016
Extracurricular activities	459,166	454,658
Interest and fiscal charges	-	21,361
	<u>13,560,087</u>	<u>12,990,691</u>
Total expenses		
Change in net assets	(314,221)	(451,372)
Net assets at beginning of year (restated)	<u>5,977,266</u>	<u>6,428,638</u>
Net assets at end of year	<u>\$ 5,663,045</u>	<u>\$ 5,977,266</u>

**Governmental Activities**

Net assets of the District's governmental activities decreased \$314,221. The decrease is due to expenses exceeding revenues. The most significant increase in expenses is due to increases in the costs of benefits and salaries. Total governmental expenses of \$13,560,087 were offset by program revenues of \$1,672,278 and general revenues of \$11,573,588. Program revenues supported 12.33% of the total governmental expenses.

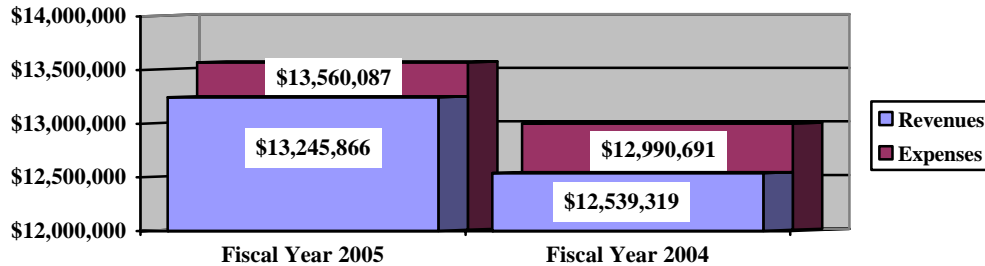
The primary sources of revenue for governmental activities are derived from property taxes and grants and entitlements. These two revenue sources represent 85.78% of total governmental revenue. Real estate property is reappraised every six years.

**MARGARETTA LOCAL SCHOOL DISTRICT  
ERIE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED  
(Continued)**

The graph below presents the District's governmental activities revenue and expenses for fiscal years 2005 and 2004.

**Governmental Activities - Revenues and Expenses**



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

**Governmental Activities**

	Total Cost of Services 2005	Net Cost of Services 2005	Restated Total Cost of Services 2004	Restated Net Cost of Services 2004
<b>Program expenses</b>				
Instruction:				
Regular	\$ 5,417,337	\$ 5,175,590	\$ 5,327,053	\$ 5,106,970
Special	1,315,336	1,094,104	1,143,435	971,286
Vocational	384,969	384,969	358,277	353,017
Other	7,880	7,880	116	(2,024)
Support services:				
Pupil	613,031	426,271	578,873	420,505
Instructional staff	714,617	701,318	623,624	593,732
Board of education	153,606	153,606	112,511	112,511
Administration	947,001	947,001	905,644	905,644
Fiscal	380,078	380,078	388,797	388,797
Operations and maintenance	1,515,112	1,513,565	1,431,694	1,430,667
Pupil transportation	834,605	834,605	833,119	825,709
Operations of non-instructional services				
Non-instructional services	213,734	(201,563)	228,513	227,513
Food service operations	603,615	11,219	583,016	11,729
Extracurricular activities	459,166	459,166	454,658	75,153
Intergovernmental pass-through	-	-	21,361	-
<b>Total expenses</b>	<u>\$ 13,560,087</u>	<u>\$ 11,887,809</u>	<u>\$ 12,990,691</u>	<u>\$ 11,421,209</u>

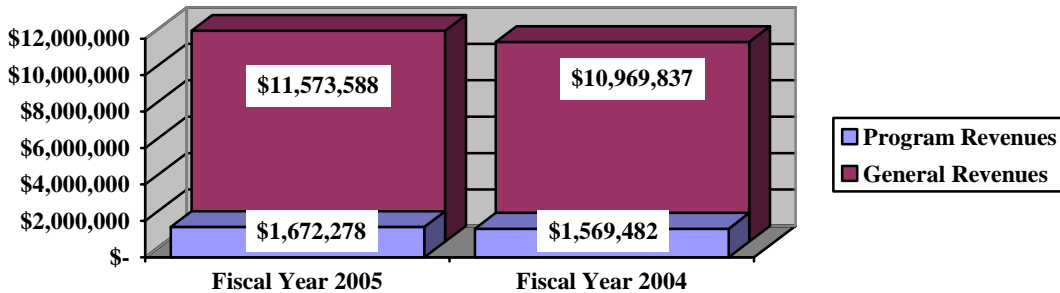
**MARGARETTA LOCAL SCHOOL DISTRICT  
ERIE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED  
(Continued)**

The dependence upon tax and other general revenues for governmental activities is apparent, 93.50% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 87.67%. 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 2005 and 2004.

**Governmental Activities - General and Program Revenues**



**The District's Funds**

The District's governmental funds (as presented on the balance sheet) reported a combined fund balance of \$3,538,151, which is lower than last year's total of \$3,648,194. The June 30, 2004, fund balance has been restated as detailed in Note 3.A of the notes to the financial statements. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2005 and 2004.

	Fund Balance June 30, 2005	Restated Fund Balance June 30, 2004	Increase (Decrease)
General	\$ 3,439,589	\$ 3,471,248	\$ (31,659)
Other Governmental	98,562	176,946	(78,384)
Total	<u>\$ 3,538,151</u>	<u>\$ 3,648,194</u>	<u>\$ (110,043)</u>

**General Fund**

The District's general fund balance decreased \$31,659. The decrease in fund balance can be attributed to expenditures exceeding revenues. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

**MARGARETTA LOCAL SCHOOL DISTRICT  
ERIE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED  
(Continued)**

	2005 <u>Amount</u>	Restated 2004 <u>Amount</u>	Percentage <u>Change</u>
<b><u>Revenues</u></b>			
Taxes	\$ 6,183,921	\$ 5,523,256	11.96 %
Tuition	91,182	36,091	152.64 %
Earnings on investments	108,817	72,533	50.02 %
Classroom materials and fees	64,864		100.00 %
Extracurricular		140	(100.00) %
Intergovernmental	5,179,032	4,957,527	4.47 %
Other revenues	<u>119,018</u>	<u>142,930</u>	(16.73) %
Total	<u>\$ 11,746,834</u>	<u>\$10,732,477</u>	9.45 %
<b><u>Expenditures</u></b>			
Instruction	\$ 6,659,167	\$ 6,493,941	2.54 %
Support services	4,865,541	4,898,310	(0.67) %
Operation of non-instructional services	16,467	19,462	(15.39) %
Extracurricular activities	219,763	217,264	1.15 %
Facilities acquisition and construction	3,000	10,795	(72.21) %
Intergovernmental pass-through	<u>-</u>	<u>21,361</u>	(100.00) %
Total	<u>\$ 11,763,938</u>	<u>\$11,661,133</u>	0.88 %

The increase in tuition revenue is due to an increase in open enrollment students. The increase in earnings on investments can be attributed to an increase of interest rates by the Federal Reserve. The increase in taxes is due to an increase in amounts available as an advance as of June 30, 2005 and delinquencies collected. The increases in instruction and extracurricular activities are primarily due to increases in costs of insurance benefits.

***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 2005, the District did not amend its general fund budget. For the general fund, original and final budgeted revenues and other financing sources were \$12,284,752. Actual revenues and other financing sources for fiscal 2005 was \$11,580,455. This represents a \$704,297 decrease from original and final budgeted revenues. This is due to a decrease in budgeted tax revenue and intergovernmental revenue.

General fund original and final appropriations (appropriated expenditures plus other financing uses) were \$12,021,824. The actual budget basis expenditures and other financing uses for fiscal year 2005 totaled \$11,894,885, which was \$126,939 less than the original and final budget appropriations.

**MARGARETTA LOCAL SCHOOL DISTRICT  
ERIE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED  
(Continued)**

**Capital Assets**

At the end of fiscal 2005, the District had \$2,683,919 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 2005 balances compared to the restated amount of capital assets in 2004, which is detailed in Note 8.A of the notes to the financial statements:

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

	Governmental Activities	
	2005	Restated 2004
Land	\$ 103,182	\$ 103,182
Land improvements	303,963	244,097
Building and improvements	1,553,058	1,622,246
Furniture and equipment	172,802	155,073
Vehicles	550,914	527,271
Total	\$ 2,683,919	\$ 2,651,869

The overall increase in capital assets of \$32,050 is primarily due to capital outlays of \$251,925 exceeding total depreciation expense of \$219,875 for fiscal 2005.

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

**Debt Administration**

At June 30, 2005, the District had no outstanding debt obligations.

**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 4 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 strong "not at this time". A community engagement process has been started to increase community awareness to the needs of the District.

Open enrollment began during school year 2004-2005. This increased state funding with no increase in operational expenses.

**MARGARETTA LOCAL SCHOOL DISTRICT  
ERIE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED  
(Continued)**

**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. Jude Hammond, Treasurer, Margarett Local School District, 305 S. Washington Street, Castalia, Ohio 44824-9263.



**MARGARETTA LOCAL SCHOOL DISTRICT  
ERIE COUNTY**

STATEMENT OF NET ASSETS  
JUNE 30, 2005

		<u>Governmental Activities</u>
<b>Assets:</b>		
Equity in pooled cash and cash equivalents. . .	\$	4,731,827
Receivables:		
Taxes . . . . .		6,218,844
Accounts . . . . .		1,690
Intergovernmental . . . . .		60,184
Accrued interest . . . . .		17,399
Prepayments . . . . .		35,515
Materials and supplies inventory . . . . .		15,134
Capital assets:		
Land. . . . .		103,182
Depreciable capital assets, net. . . . .		2,580,737
Total capital assets, net . . . . .		<u>2,683,919</u>
Total assets. . . . .		<u>13,764,512</u>
<b>Liabilities:</b>		
Accounts payable. . . . .		153,076
Accrued wages and benefits . . . . .		1,294,814
Pension obligation payable. . . . .		322,287
Intergovernmental payable. . . . .		64,043
Deferred revenue . . . . .		5,505,432
Long-term liabilities:		
Due within one year. . . . .		41,572
Due in more than one year . . . . .		720,243
Total liabilities . . . . .		<u>8,101,467</u>
<b>Net Assets:</b>		
Invested in capital assets . . . . .		2,683,919
Restricted for:		
Capital projects . . . . .		82,952
State funded programs. . . . .		10,614
Federally funded programs. . . . .		28,497
Unrestricted . . . . .		<u>2,857,063</u>
Total net assets . . . . .	\$	<u><u>5,663,045</u></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, 2005**

	<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>
<b>Governmental activities:</b>				
Instruction:				
Regular . . . . .	\$ 5,417,337	\$ 169,575	\$ 72,172	\$ (5,175,590)
Special . . . . .	1,315,336		221,232	(1,094,104)
Vocational . . . . .	384,969			(384,969)
Other . . . . .	7,880			(7,880)
Support services:				
Pupil . . . . .	613,031		186,760	(426,271)
Instructional staff . . . . .	714,617		13,299	(701,318)
Board of education . . . . .	153,606			(153,606)
Administration . . . . .	947,001			(947,001)
Fiscal . . . . .	380,078			(380,078)
Business . . . . .				
Operations and maintenance . . . . .	1,515,112	1,547		(1,513,565)
Pupil transportation . . . . .	834,605			(834,605)
Central . . . . .				
Operation of non-instructional:				
Non-instructional services . . . . .	213,734	415,297		201,563
Operation of non-instructional services . . . . .				
Food service operations . . . . .	603,615	413,517	178,879	(11,219)
Extracurricular activities . . . . .	459,166			(459,166)
Totals . . . . .	<u>\$ 13,560,087</u>	<u>\$ 999,936</u>	<u>\$ 672,342</u>	<u>(11,887,809)</u>
<b>General Revenues:</b>				
Property taxes levied for:				
General purposes . . . . .				6,046,391
Capital projects . . . . .				105,502
Grants and entitlements not restricted to specific programs . . . . .				5,210,923
Investment earnings . . . . .				108,165
Miscellaneous . . . . .				102,607
Total general revenues . . . . .				<u>11,573,588</u>
Change in net assets . . . . .				(314,221)
<b>Net assets at beginning of year (restated) . . . . .</b>				<u>5,977,266</u>
<b>Net assets at end of year . . . . .</b>				<u>\$ 5,663,045</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MARGARETTA LOCAL SCHOOL DISTRICT  
ERIE COUNTY**

BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2005

	<b>General</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Assets:</b>			
Equity in pooled cash and cash equivalents . . . . .	\$ 4,448,786	\$ 283,041	\$ 4,731,827
<b>Receivables:</b>			
Taxes . . . . .	6,019,693	199,151	6,218,844
Accounts . . . . .	1,690		1,690
Intergovernmental. . . . .		60,184	60,184
Accrued interest. . . . .	17,399		17,399
Due from other funds . . . . .	81,962		81,962
Prepayments . . . . .	35,515		35,515
Materials and supplies . . . . .		15,134	15,134
	<u>\$ 10,605,045</u>	<u>\$ 557,510</u>	<u>\$ 11,162,555</u>
<b>Liabilities:</b>			
Accounts payable . . . . .	\$ 133,748	\$ 19,328	\$ 153,076
Accrued wages and benefits . . . . .	1,206,435	88,379	1,294,814
Pension obligation payable . . . . .	282,384	39,903	322,287
Intergovernmental payable . . . . .	59,804	4,239	64,043
Due to other funds . . . . .		81,962	81,962
Deferred revenue . . . . .	5,483,085	225,137	5,708,222
	<u>7,165,456</u>	<u>458,948</u>	<u>7,624,404</u>
<b>Fund Balances:</b>			
Reserved for encumbrances. . . . .	109,038	102,743	211,781
Reserved for materials and supplies inventory . . . . .		15,134	15,134
Reserved for property tax unavailable for appropriation. . . . .	548,721	17,847	566,568
Reserved for prepayments. . . . .	35,515		35,515
Unreserved, undesignated (deficit), reported in:			
General fund. . . . .	2,746,315		2,746,315
Special revenue funds . . . . .		(4,059)	(4,059)
Capital projects funds . . . . .		(33,103)	(33,103)
	<u>3,439,589</u>	<u>98,562</u>	<u>3,538,151</u>
Total liabilities and fund balances . . . . .	<u>\$ 10,605,045</u>	<u>\$ 557,510</u>	<u>\$ 11,162,555</u>

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, 2005

<b>Total governmental fund balances</b>		\$ 3,538,151
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		2,683,919
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Taxes	\$ 146,844	
Interest revenue	12,113	
Intergovernmental revenue	<u>43,833</u>	
Total		202,790
Long-term liabilities, including compensated absences are not due and payable in the current period and therefore are not reported in the funds.		<u>(761,815)</u>
<b>Net assets of governmental activities</b>		<u><u>\$ 5,663,045</u></u>

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, 2005**

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>			
From local sources:			
Taxes . . . . .	\$ 6,183,921	\$ 110,100	\$ 6,294,021
Tuition . . . . .	91,182		91,182
Charges for services . . . . .		413,517	413,517
Earnings on investments . . . . .	108,817	2	108,819
Extracurricular . . . . .		415,297	415,297
Classroom materials and fees . . . . .	64,864		64,864
Other local revenues . . . . .	119,018	355	119,373
Intergovernmental - State . . . . .	5,179,032	71,700	5,250,732
Intergovernmental - Federal . . . . .		622,703	622,703
<b>Total revenue . . . . .</b>	<b>11,746,834</b>	<b>1,633,674</b>	<b>13,380,508</b>
<b>Expenditures:</b>			
Current:			
Instruction:			
Regular . . . . .	5,218,935	112,113	5,331,048
Special . . . . .	1,049,201	274,204	1,323,405
Vocational . . . . .	383,180		383,180
Other . . . . .	7,851	29	7,880
Support Services:			
Pupil . . . . .	412,725	199,409	612,134
Instructional staff . . . . .	678,643	15,811	694,454
Board of education . . . . .	153,322	284	153,606
Administration . . . . .	937,567		937,567
Fiscal . . . . .	376,183	3,183	379,366
Operations and maintenance . . . . .	1,382,058		1,382,058
Pupil transportation . . . . .	925,043		925,043
Operation of non-instructional services:			
Non-instructional services . . . . .	16,467	197,267	213,734
Food service operations . . . . .		606,669	606,669
Extracurricular activities . . . . .	219,763	188,390	408,153
Facilities acquisition and construction . . . . .	3,000	122,689	125,689
<b>Total expenditures . . . . .</b>	<b>11,763,938</b>	<b>1,720,048</b>	<b>13,483,986</b>
Excess (deficiency) of revenues over (under) expenditures . . . . .	(17,104)	(86,374)	(103,478)
<b>Other financing sources (uses):</b>			
Transfers in . . . . .		14,555	14,555
Transfers (out) . . . . .	(14,555)		(14,555)
<b>Total other financing sources (uses) . . . . .</b>	<b>(14,555)</b>	<b>14,555</b>	
Net change in fund balances . . . . .	(31,659)	(71,819)	(103,478)
<b>Fund balances at beginning of year (restated)</b>	<b>3,471,248</b>	<b>176,946</b>	<b>3,648,194</b>
<b>Decrease in reserve for inventory . . . . .</b>		<b>(6,565)</b>	<b>(6,565)</b>
<b>Fund balances at end of year . . . . .</b>	<b>\$ 3,439,589</b>	<b>\$ 98,562</b>	<b>\$ 3,538,151</b>

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, 2005**

**Net change in fund balances - total governmental funds** \$ (103,478)

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

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

Capital asset additions	\$	251,925	
Current year depreciation		<u>(219,875)</u>	
 Total			 32,050

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

Delinquent property taxes		(142,128)	
Intergovernmental		8,140	
Accrued interest		<u>(654)</u>	
 Total			 (134,642)

Governmental funds report expenditures for inventory when purchased. However, in the statement of activities they are reported as an expense when consumed. (6,565)

Some expenses reported in the statement of activities do not require the use of financial resources and therefore are not reported as expenditures in governmental funds. (101,586)

**Change in net assets of governmental activities** \$ (314,221)

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 (NON-GAAP BUDGETARY BASIS)  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
From local sources:				
Taxes . . . . .	\$ 6,328,036	\$ 6,328,036	\$ 5,997,783	\$ (330,253)
Tuition. . . . .	97,668	97,668	91,182	(6,486)
Earnings on investments. . . . .	118,511	118,511	113,695	(4,816)
Classroom materials and fees . . . . .	69,847	69,847	65,208	(4,639)
Other local revenues. . . . .	123,245	123,245	115,645	(7,600)
Intergovernmental - state . . . . .	5,547,445	5,547,445	5,179,032	(368,413)
<b>Total revenue . . . . .</b>	<b>12,284,752</b>	<b>12,284,752</b>	<b>11,562,545</b>	<b>(722,207)</b>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular . . . . .	5,430,974	5,343,440	5,357,773	(14,333)
Special. . . . .	960,000	1,043,314	1,040,159	3,155
Vocational. . . . .	382,500	393,506	382,542	10,964
Other. . . . .		7,952	7,851	101
Support Services:				
Pupil. . . . .	437,000	410,704	410,048	656
Instructional staff . . . . .	602,000	653,894	652,730	1,164
Board of education . . . . .	142,500	161,900	156,817	5,083
Administration. . . . .	973,000	979,687	936,351	43,336
Fiscal . . . . .	389,000	401,163	375,985	25,178
Operations and maintenance. . . . .	1,543,200	1,395,124	1,381,798	13,326
Pupil transportation . . . . .	867,000	925,790	918,108	7,682
Operation of non-instructional services . . . . .	19,200	19,200	17,524	1,676
Extracurricular activities. . . . .	219,450	227,150	223,491	3,659
Facilities acquisition and construction . . . . .		3,000	3,000	
Intergovernmental pass-through . . . . .	25,000	25,000		25,000
<b>Total expenditures . . . . .</b>	<b>11,990,824</b>	<b>11,990,824</b>	<b>11,864,177</b>	<b>126,647</b>
Excess of revenues over (under) expenditures. . . . .	293,928	293,928	(301,632)	(595,560)
<b>Other financing sources (uses):</b>				
Transfers in . . . . .			16,152	16,152
Refund of prior year expenditures . . . . .			1,758	1,758
Transfers (out) . . . . .	(31,000)	(31,000)	(30,708)	292
<b>Total other financing sources (uses) . . . . .</b>	<b>(31,000)</b>	<b>(31,000)</b>	<b>(12,798)</b>	<b>18,202</b>
Net change in fund balance . . . . .	262,928	262,928	(314,430)	(577,358)
<b>Fund balance at beginning of year . . . . .</b>	<b>4,507,246</b>	<b>4,507,246</b>	<b>4,507,246</b>	
<b>Prior year encumbrances appropriated . . . . .</b>	<b>150,974</b>	<b>150,974</b>	<b>150,974</b>	
<b>Fund balance at end of year . . . . .</b>	<b>\$ 4,921,148</b>	<b>\$ 4,921,148</b>	<b>\$ 4,343,790</b>	<b>\$ (577,358)</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MARGARETTA LOCAL SCHOOL DISTRICT  
ERIE COUNTY**

STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
JUNE 30, 2005

	<b>Private-Purpose Trust</b>	
	<b>Scholarship</b>	<b>Agency</b>
<b>Assets:</b>		
Equity in pooled cash and cash equivalents . . . . .	\$ 288,280	\$ 25,115
Total assets . . . . .	288,280	25,115
<b>Liabilities:</b>		
Due to students . . . . .		\$ 25,115
Total liabilities . . . . .		\$ 25,115
<b>Net Assets:</b>		
Held in trust for scholarships . . . . .	288,280	
Total net assets . . . . .	\$ 288,280	

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, 2005

	<b>Private-Purpose Trust</b>
	<b>Scholarship</b>
<b>Additions:</b>	
Interest . . . . .	\$ 5,967
Gifts and contributions. . . . .	25,668
	31,635
<b>Deductions:</b>	
Scholarships awarded . . . . .	22,212
Change in net assets . . . . .	9,423
<b>Net assets at beginning of year. . . . .</b>	<b>278,857</b>
<b>Net assets at end of year . . . . .</b>	<b>\$ 288,280</b>

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, 2005**

**NOTE 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 Castalia 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 376<sup>th</sup> largest in the state of Ohio among 614 public school districts in terms of enrollment. It currently operates 2 elementary schools and 1 high school. The District employs 76 non-certificated employees and 100 certificated (including administrative) employees to provide services to approximately 1,481 students.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. Reporting Entity**

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units". The reporting entity is composed of the primary government, component units and other organizations that are included to ensure that the basic financial statements of the District are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, foods service, community services 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, 2005  
(Continued)**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (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 Section 4123.29 of the Ohio Revised Code. The Ohio School Boards Association Workers' Compensation Group Rating Plan (the "Plan") was established through the Ohio School Boards Association (OSBA) as a group purchasing pool.

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 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.

**MARGARETTA LOCAL SCHOOL DISTRICT  
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

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

**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.

**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.

**MARGARETTA LOCAL SCHOOL DISTRICT  
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

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

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the District.

Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include amounts paid by the recipient of goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues of the District.

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

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

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

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

**D. Basis of Accounting**

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

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

**MARGARETTA LOCAL SCHOOL DISTRICT  
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

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

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, 2005, but which were levied to finance fiscal year 2006 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities 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 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.

**MARGARETTA LOCAL SCHOOL DISTRICT  
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

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

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  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (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 2005, 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 2005. 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, 2005.

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 2005 amounted to \$108,817 which includes \$6,097 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, 2005  
(Continued)**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (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, or 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.

**MARGARETTA LOCAL SCHOOL DISTRICT  
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

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

**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.

**MARGARETTA LOCAL SCHOOL DISTRICT  
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

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

**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 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 basic 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 2005.

**MARGARETTA LOCAL SCHOOL DISTRICT  
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE**

**A. Change In Accounting Principles**

For fiscal year 2005, the District has implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures" and GASB Technical Bulletin 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers".

GASB Statement No. 40 establishes and modified disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk) and interest rate risk. This statement also establishes and modified disclosure requirements for custodial credit risk on deposits.

GASB Technical Bulletin No. 2004-2 addresses the amount that should be recognized as expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other postemployment benefit (OPEB) plans.

The implementation of GASB Statement No. 40 did not have an effect on the financial statements of the District, however additional note disclosure can be found in Note 4. The implementation of GASB Technical Bulletin No. 2004-2 had the following effect on the fund balances of the major and non-major funds of the District as they were previously reported as of June 30, 2004:

	<u>General</u>	<u>Nonmajor</u>	<u>Total</u>
Fund Balances, June 30, 2004	\$ 3,579,363	\$ 195,894	\$ 3,775,257
GASB Technical Bulletin No. 2004-2	(108,115)	(18,948)	(127,063)
Restated Fund Balances, June 30, 2004	\$ 3,471,248	\$ 176,946	\$ 3,648,194

**B. Prior Period Adjustment**

The District presented a prior period adjustment to capital assets due to obtaining a new appraisal report which affects net assets at June 30, 2004, as follows:

	<u>Total</u>
Net assets, June 30, 2004	\$ 5,893,433
Restatement of capital assets	83,833
Restated net assets, June 30, 2004	\$ 5,977,266

MARGARETTA LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE – (Continued)

C. Deficit Fund Balances

Fund balances at June 30, 2005, included the following individual fund deficits:

<u>Nonmajor Funds</u>	<u>Deficit</u>
Food Service	\$ 22,875
Title VI-B	15,024
EMIS	642
Other Grants	34
Teacher Development	1,302
Data Communication	2,061
Miscellaneous State Grants	4,523
Title I	99,690
Title VI	842
EHA Preschool Grants	2,559

Food Service and Title VI-B complied with Ohio state law, which does not permit a cash basis deficit at fiscal year-end. The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances result from adjustments for accrued liabilities. The EMIS, Other Grants, Teacher Development, Data Communication, Miscellaneous State Grants, Title I, Title VI, and EHA preschool Grants had cash basis deficits at year-end, contrary to Ohio Revised Code Section 5705.10.

**MARGARETTA LOCAL SCHOOL DISTRICT  
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE – (Continued)**

**D. Compliance**

The following accounts had expenditures (including encumbrances) in excess of appropriations for the year ended June 30, 2005:

Fund	Appropriations	Expenditures	Excess
<b>General Fund:</b>			
Regular Instruction	\$5,323,440	\$5,357,773	(\$34,333)
Other Instruction	7,952	9,463	(1,511)
<b>Special Revenues Fund:</b>			
Public School Support Fund 018	1,152	205,097	(203,945)
Jennings/EI Grant Fund 019		325	(325)
Athletics Fund 300	1,760	191,253	(189,493)
Professional Development Fund 416		1,365	(1,365)
EMIS Subsidy Fund 432		6,600	(6,600)
Entry Year Grant Fund 440		800	(800)
One Net/Network Connectivity Fund 451		9,918	(9,918)
SchoolNet Professional Development Fund 452		2,307	(2,307)
Ohio Reads Fund 459		29	(29)
Summer School Intervention Fund 460		11,539	(11,539)
Miscellaneous State Grant Fund 499	3,906	9,936	(6,030)
Title VI-B Fund 516		262,618	(262,618)
Title I Fund 572		152,382	(152,382)
Chapter 2 Fund 573		245	(245)
Safe & Drug Free School Fund 584		5,389	(5,389)
Pre-School Fund 587		12,545	(12,545)
Classroom Reduction Fund 590		76,043	(76,043)
Miscellaneous Federal Grant Fund 599	500	3,350	(2,850)
<b>Capital Project Fund:</b>			
School Net Fund 450		13,020	(13,020)
<b>Trust Funds:</b>			
Expendable Trust Scholarship Fund 007		13669	(13,669)
Non-Expendable Trust Scholarship Fund 008	23	9523	(9,500)

**NOTE 4 - DEPOSITS AND INVESTMENTS**

State statutes classify monies held by the District into three categories.

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

**MARGARETTA LOCAL SCHOOL DISTRICT  
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**NOTE 4 - DEPOSITS AND INVESTMENTS – (Continued)**

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

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

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

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

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



**MARGARETTA LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**NOTE 4 - DEPOSITS AND INVESTMENTS – (Continued)**

8. Under limited circumstances, corporate debt interests rated in either of the two highest 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, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

**A. Deposits with Financial Institutions**

At June 30, 2005, the carrying amount of all District deposits was \$628,902. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2005, \$467,310 of the District's bank balance of \$667,310 was exposed to custodial risk as discussed below, while \$200,000 was covered by Federal Deposit Insurance Corporation.

Custodial credit risk is the risk that, in the event of bank failure, the District's deposits may not be returned. Deposits of \$467,310 were collateralized by specific pledged collateral held at the Federal Reserve Bank in the name of the District. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the District to a successful claim by the FDIC. The District has no deposit policy for custodial credit risk beyond the requirements of State statute.

**B. Investments**

As of June 30, 2005, the District had the following investments and maturities:

<u>Investment type</u>	<u>Balance at Fair Value</u>	<u>Investment Maturities</u>	
		<u>6 months or less</u>	<u>7 to 12 months</u>
FHLB	\$ 859,389	\$ 859,389	
FNMA	495,712		\$ 495,712
FHLMC	2,475,103	2,475,103	
STAR Ohio	586,116	586,116	-
	<u>\$ 4,416,320</u>	<u>\$ 3,920,608</u>	<u>\$ 495,712</u>

The weighted average maturity of investments is .3 years.

*Interest Rate Risk:* As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the District's investment policy limits investment portfolio maturities to five years or less.

**MARGARETTA LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**NOTE 4 - DEPOSITS AND INVESTMENTS – (Continued)**

*Credit Risk:* The District's investments, except STAR Ohio, were rated AAA and Aaa by Standard & Poor's and Moody's Investor Services, respectively. Standard & Poor's has assigned STAR Ohio and AAAM money market rating. STAR Ohio must maintain the highest letter or numerical rating provided by at least one nationally recognized standard service.

*Concentration of Credit Risk:* The District's investment policy places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2005:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
FHLB	\$ 859,389	19.47
FNMA	495,712	11.22
FHLMC	2,475,103	56.04
STAR Ohio	586,116	13.27
	<u>\$ 4,416,320</u>	<u>100.00</u>

**C. Reconciliation of Cash and Investment to the Statement of Net Assets**

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2005:

<u>Cash and investments per footnote</u>	
Carrying amount of deposits	\$ 628,902
Investments	<u>4,416,320</u>
Total	<u>\$ 5,045,222</u>
 <u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 4,731,827
Private-purpose trust funds	288,280
Agency funds	<u>25,115</u>
Total	<u>\$ 5,045,222</u>

**NOTE 5 - INTERFUND TRANSACTIONS**

- A. Interfund balances at June 30, 2005, as reported on the fund statements, consist of the following amounts due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor governmental funds	\$ 81,962

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.

**MARGARETTA LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**NOTE 5 - INTERFUND TRANSACTIONS – (Continued)**

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2005, are reported on the statement of net assets.

- B.** Interfund transfers for the year ended June 30, 2005, consisted of the following, as reported on the fund financial statements:

Transfers to Nonmajor Governmental funds from:	
General Fund	\$14,555

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.

**NOTE 6 - PROPERTY TAXES**

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2005 represents collections of calendar year 2004 taxes. Real property taxes received in calendar year 2005 were levied after April 1, 2004, on the assessed value listed as of January 1, 2004, 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 2005 represents collections of calendar year 2004 taxes. Public utility real and tangible personal property taxes received in calendar year 2005 became a lien December 31, 2003, were levied after April 1, 2004, and are collected in 2005 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 2005 (other than public utility property) represents the collection of 2005 taxes. Tangible personal property taxes received in calendar year 2005 were levied after April 1, 2004, on the value as of December 31, 2004. 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

**MARGARETTA LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(Continued)**

**NOTE 6 - PROPERTY TAXES – (Continued)**

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, 2005, are available to finance fiscal year 2005 operations.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2005 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, 2005, was \$548,721 in the general fund, and \$17,847 in the Permanent Improvement capital projects fund. These amounts are recorded as 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. The amount available as an 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 2005 taxes were collected are:

	2004 Second Half Collections		2005 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 145,739,240	75.82	\$145,739,240	75.82
Public utility personal	9,587,340	4.99	9,587,340	4.99
Tangible personal property	<u>36,894,585</u>	<u>19.19</u>	<u>36,894,585</u>	<u>19.19</u>
 Total	 <u>\$ 192,221,165</u>	 <u>100.00</u>	 <u>\$192,221,165</u>	 <u>100.00</u>
 Tax rate per \$1,000 of assessed valuation	 \$ 56.80		 \$ 56.80	

**MARGARETTA LOCAL SCHOOL DISTRICT  
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**NOTE 7 - RECEIVABLES**

Receivables at June 30, 2005, consisted of taxes, accounts (billings for user charged services and student fees), accrued interest, and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the statement of net assets follows:

<b>Governmental Activities:</b>	
Property taxes	\$ 6,218,844
Accounts	1,690
Intergovernmental	60,184
Accrued interest	<u>17,399</u>
<b>Total</b>	<b><u>\$ 6,298,117</u></b>

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

**NOTE 8 - CAPITAL ASSETS**

A. Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

	Balance <u>06/30/04</u>	Adjustments	Restated Balance <u>06/30/04</u>
<i>Capital assets, not being depreciated:</i>			
Land	\$ 211,027	\$ (107,845)	\$ 103,182
<i>Capital assets, being depreciated:</i>			
Land improvements	324,329	773,475	1,097,804
Building and improvements	4,595,272	387,041	4,982,313
Furniture and equipment	1,257,032	(760,112)	496,920
Vehicles	<u>1,314,397</u>	<u>(155,567)</u>	<u>1,158,830</u>
Total capital assets, being depreciated	<u>7,491,030</u>	<u>244,837</u>	<u>7,735,867</u>
<i>Less: accumulated depreciation:</i>			
Land improvements	(251,808)	(601,899)	(853,707)
Building and improvements	(3,181,516)	(178,551)	(3,360,067)
Furniture and equipment	(985,619)	643,772	(341,847)
Vehicles	<u>(715,078)</u>	<u>83,519</u>	<u>(631,559)</u>
Total accumulated depreciation	<u>(5,134,021)</u>	<u>(53,159)</u>	<u>(5,187,180)</u>
Governmental activities capital assets, net	<u>\$ 2,568,036</u>	<u>\$ 83,833</u>	<u>\$ 2,651,869</u>

**MARGARETTA LOCAL SCHOOL DISTRICT  
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**NOTE 8 - CAPITAL ASSETS – (Continued)**

**B.** Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

	Restated Balance 06/30/04	Additions	Deductions	Balance 06/30/05
<i>Capital assets, not being depreciated:</i>				
Land	\$ 103,182			\$ 103,182
<i>Capital assets, being depreciated:</i>				
Land improvements	1,097,804	\$ 90,280		1,188,084
Building and improvements	4,982,313			4,982,313
Furniture and equipment	496,920	48,395		545,315
Vehicles	1,158,830	113,250		1,272,080
Total capital assets, being depreciated	7,735,867	251,925		7,987,792
<i>Less: accumulated depreciation:</i>				
Land improvements	(853,707)	(30,414)		(884,121)
Building and improvements	(3,360,067)	(69,188)		(3,429,255)
Furniture and equipment	(341,847)	(30,666)		(372,513)
Vehicles	(631,559)	(89,607)		(721,166)
Total accumulated depreciation	(5,187,180)	(219,875)		(5,407,055)
Governmental activities capital assets, net	\$ 2,651,869	\$ 32,050	\$ -	\$ 2,683,919

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 43,372
special	572
<u>Support Services:</u>	
Administration	6,449
Operations and Maintenance	18,040
Pupil Transportation	96,188
<u>Operation on Non-instructional Services:</u>	
Food Service Operation	4,241
Extracurricular Activities	51,013
Total depreciation expense	<u>\$ 219,875</u>

**MARGARETTA LOCAL SCHOOL DISTRICT  
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**NOTE 9 - LONG-TERM OBLIGATIONS**

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

	Balance Outstanding <u>06/30/04</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>06/30/05</u>	Amounts Due in <u>One Year</u>
Compensated absences	\$ 764,759	\$ 142,479	\$(145,423)	\$ 761,815	\$ 41,572
Total governmental activities	<u>\$ 764,759</u>	<u>\$ 142,479</u>	<u>\$(145,423)</u>	<u>\$ 761,815</u>	<u>\$ 41,572</u>

*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% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District.

The effects of these debt limitations at June 30, 2005, are a voted debt margin of \$17,299,905 and an unvoted debt margin of \$192,221.

**NOTE 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. 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.

**MARGARETTA LOCAL SCHOOL DISTRICT  
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**NOTE 11 - RISK MANAGEMENT**

**A. Comprehensive**

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. During fiscal year 2005, 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>
<b>General liability:</b>			
Each occurrence	Harcum-Hyre	\$ 1,000,000	
Aggregate		3,000,000	
<b>Fleet:</b>			
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.

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.



**MARGARETTA LOCAL SCHOOL DISTRICT  
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**NOTE 11 - RISK MANAGEMENT – (Continued)**

**C. OSBA Group Workers' Compensation Rating Plan**

For fiscal year 2005, the District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (the "Plan"), an insurance purchasing pool (Note 2.A.). The intent of the Plan is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the Plan. 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 Plan. Each participant pays its workers' compensation premium to the state based on the rate for the Plan 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 Plan.

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 Plan. Participation in the Plan is limited to school districts that can meet the Plan's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the Plan.

**NOTE 12 - DEFINED BENEFIT PENSION PLANS**

**A. School Employees Retirement System**

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by 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 43215-3746, or by calling (614) 222-5853.

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% 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 2005, 10.57% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09% of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually.

The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003, were \$206,363, \$171,033, and \$145,143, respectively; 43.44% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. \$116,713 represents the unpaid contribution for fiscal year 2005 and is recorded as a liability within the respective funds.

**MARGARETTA LOCAL SCHOOL DISTRICT  
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**NOTE 12 - DEFINED BENEFIT PENSION PLANS – (Continued)**

**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 43215-3371, by calling (614) 227-4090, or by visiting the STRS website at [www.strsoh.org](http://www.strsoh.org).

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

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

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% 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 years 2005, 13% 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% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The District's required contributions for pension obligations to the DB plan for the fiscal years ended June 30, 2005, 2004, and 2003 were \$722,132, \$695,404, and \$682,646, respectively; 84.04% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. \$115,232 represents the unpaid contribution for fiscal year 2005 and is recorded as a liability in the respective funds. Contributions to the DC and Combined Plans for fiscal year 2005 were \$4,918 made by the District and \$11,976 made by plan members.

**MARGARETTA LOCAL SCHOOL DISTRICT  
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**NOTE 12 - DEFINED BENEFIT PENSION PLANS – (Continued)**

**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, 2005, certain members of the Board of Education have elected Social Security. The District's liability is 6.2% of wages paid.

**NOTE 13 - POSTEMPLOYMENT BENEFITS**

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

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For fiscal year 2005, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund. For the District, this amount equaled \$55,549 during fiscal 2005.

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Health Care Stabilization Fund was \$3.3 billion at June 30, 2005. For the fiscal year ended June 30, 2005, net health care costs paid by STRS were \$254.780 million and STRS had 115,395 eligible benefit recipients.

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

For fiscal year 2005, employer contributions to fund health care benefits were 3.43% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay has been established at \$27,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150% of annual health care expenses, before premium deduction. Gross expenses for health care at June 30, 2005, were \$178,221,113 and the target level is 150% of projected claims less premium contributions for the next fiscal year. At June 30, 2005, SERS had net assets available for payment of health care benefits of \$267.5 million and SERS had 58,123 participants eligible to receive health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$164,510 during the 2005 fiscal year.

**MARGARETTA LOCAL SCHOOL DISTRICT  
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**NOTE 14 - BUDGETARY BASIS OF ACCOUNTING**

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

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

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

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

**Net Change in Fund Balance**

Budget basis	\$ (314,430)
Net adjustment for revenue accruals	184,289
Net adjustment for expenditure accruals	(84,916)
Net adjustment for other sources/(uses)	(1,757)
Adjustment for encumbrances	<u>185,155</u>
 GAAP basis	 <u>\$ (31,659)</u>

**NOTE 15 - CONTINGENCIES**

**A. Grants**

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

**MARGARETTA LOCAL SCHOOL DISTRICT  
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**NOTE 15 – CONTINGENCIES – (Continued)**

**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.

**NOTE 16 - STATUTORY RESERVES**

The District is required by state law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2005, the reserve activity was as follows:

	<u>Textbooks/ Instructional Materials</u>	<u>Capital Acquisition</u>
Set-aside cash balance as of June 30, 2004	\$ (1,386,633)	
Current year set-aside requirement	213,969	\$ 213,969
Current year offsets		(195,160)
Qualifying disbursements	<u>(413,364)</u>	<u>(392,983)</u>
Total	<u>\$ (1,586,028)</u>	<u>\$(374,174)</u>
Balance carried forward to FY 2006	<u>\$ (1,586,028)</u>	<u>\$ -</u>

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 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.

**MARGARETTA LOCAL SCHOOL DISTRICT  
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**NOTE 17 – SIGNIFICANT SUBSEQUENT EVENT**

The Treasurer, Mr. John Coffman, retired as of November 30, 2005. The new Treasurer, Mr. Jude Hammond, was appointed as of December 1, 2005.

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**MARGARETTA LOCAL SCHOOL DISTRICT  
ERIE COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2005**

<b>FEDERAL GRANTOR</b> <i>Pass Through Grantor</i> Program Title	Federal CFDA Number	Grant Number
<b>U.S. DEPARTMENT OF AGRICULTURE</b>		
<i>Passed Through Ohio Department of Education</i>		
Fresh Fruit & Vegetable Program	10.582	046805-VGS1-2003 046805-VGS1-2005
<i>Total Fresh Fruit &amp; Vegetable Program</i>		
<u>Nutrition Cluster:</u>		
National School Lunch Program	10.555	046805-LLP4-2003 046805-LLP4-2004 046805-LLP5-2005
<i>Total National School Lunch Program</i>		
Food Distribution Program	10.550	
<i>Total Nutrition Cluster</i>		
Total U.S. Department of Agriculture		
<b>U.S. DEPARTMENT OF EDUCATION</b>		
<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-2004 046805-6B-SF-2005
<i>Total Special Education Grants to States</i>		
Special Education - Preschool Grant	84.173	046805-PG-S1-2005
<i>Total Special Education Cluster</i>		
Grants to Local Educational Agencies (ESEA Title I)	84.010	046805-C1-S1-2004 046805-C1-S1-2005
<i>Total Grants to Local Educational Agencies</i>		
Title V, Innovative Programs	84.298	046805-C2-S1-2005
<i>Total Title V, Innovative Programs</i>		
Safe and Drug-Free Schools and Communities State Grant	84.186	046805-DR-S1-2005
<i>Total Safe and Drug-Free Schools and Communities State Grant</i>		
Technology Literacy Challenge Fund	84.318	046805-TJ-S1-2004 046805-TJ-S1-2005
<i>Total Technology Literacy Challenge Fund</i>		
Improving Teacher Quality State Grant	84.367	046805-TR-S1-2004 046805-TR-S1-2005
<i>Total Improving Teacher Quality State Grant</i>		
Total U.S. Department of Education		
<b>Total Federal Financial Assistance</b>		

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>
\$ 1,095		\$ 1,095	
9,006		9,006	
<u>10,101</u>		<u>10,101</u>	
2		2	
40,311		40,311	
83,106		83,106	
<u>123,419</u>		<u>123,419</u>	
	\$ 41,143		\$ 41,143
<u>123,419</u>	<u>41,143</u>	<u>123,419</u>	<u>41,143</u>
<b><u>133,520</u></b>	<b><u>41,143</u></b>	<b><u>133,520</u></b>	<b><u>41,143</u></b>
43,743		19,180	
263,486		243,438	
<u>307,229</u>		<u>262,618</u>	
10,131		12,545	
<u>317,360</u>		<u>275,163</u>	
87,626		27,344	
<u>87,626</u>		<u>125,038</u>	
586		152,382	
<u>586</u>			
5,389		5,389	
<u>5,389</u>		<u>5,389</u>	
1,568			
1,786		1,750	
<u>3,354</u>		<u>1,750</u>	
34,114		12,229	
43,387		44,027	
<u>77,501</u>		<u>56,256</u>	
<b><u>491,816</u></b>		<b><u>490,940</u></b>	
<b><u>\$ 625,336</u></b>	<b><u>\$ 41,143</u></b>	<b><u>\$ 624,460</u></b>	<b><u>\$ 41,143</u></b>

**MARGARETTA LOCAL SCHOOL DISTRICT  
ERIE COUNTY**

**NOTES TO THE FEDERAL AWARDS EXPENDITURES SCHEDULE  
FISCAL YEAR ENDED JUNE 30, 2005**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Federal Awards Expenditures Schedule (the Schedule) summarizes activity of the School 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 School 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 School District contribute non-Federal funds (matching funds) to support the Federally-funded programs. The School 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 INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS 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, Erie County, (the School District) as of and for the year ended June 30, 2005, which collectively comprise the School District's basic financial statements and have issued our report thereon dated May 15, 2006, in which we noted the School District implemented Governmental Accounting Standards Board Technical Bulletin 2004-002, *Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers*. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the School District's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the School District's management dated May 15, 2006, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

#### **Compliance and Other Matters**

As part of reasonably assuring whether the School District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion.

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Margaretta Local School District  
Erie County  
Independent Accountants' Report On Internal Control Over  
Financial Reporting And On Compliance And Other Matters  
Required By *Government Auditing Standards*  
*Page 2*

The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2005-001 through 2005-004. In a separate letter to the School District's management dated May 15, 2006, we reported other matters related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of management, the Board of Education, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.

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

**Betty Montgomery**  
Auditor of State

May 15, 2006



## Auditor of State Betty Montgomery

### INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON 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 School District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to each of its major federal programs for the year ended June 30, 2005. The summary of auditor's results section of the accompanying schedule of findings identifies the School District's major federal programs. The School District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the School 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 reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the School District's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the School District's compliance with those requirements.

In our opinion, the School District complied, in all material respects, with the requirements referred to above that apply to each of its major federal programs for the year ended June 30, 2005.

#### Internal Control Over Compliance

The School District's management 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 School District's internal control over

compliance with requirements that could directly and materially affect a major federal program 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 reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

We intend this report solely for the information and use of management, the Board of Education, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.

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

**Betty Montgomery**  
Auditor of State

May 15, 2006

**MARGARETTA LOCAL SCHOOL DISTRICT  
ERIE COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2005**

**1. SUMMARY OF AUDITOR'S RESULTS**

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Special Education Cluster (CFDA No. 87.027 and 87.173)
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

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

**FINDING NUMBER 2005-001**

**Noncompliance Citation**

**Ohio Revised Code § 5705.41 (D)(1)** states that no subdivision shall make any contract or give any order involving the expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision. The fiscal officer must certify that the amount required to meet such a commitment has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrance. Further, contracts and orders for expenditures lacking prior certification shall be null and void.

**FINDING NUMBER 2005-001  
(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 (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 School District can authorize the drawing of a warrant for the payment of the amount due. The School District has thirty days from the receipts of the "then and now" certificate to approve payment by ordinance or resolution.

Amounts of less than \$3,000 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. This does not eliminate any otherwise applicable requirement for approval of expenditures by the School District.

2. **Blanket Certificate** – Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal 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.
3. **Super Blanket Certificate** – The School 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. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

For sixty-three percent of the transactions tested, prior certification was not obtained nor was a "then and now" certificate utilized. Certification is not only required by Ohio law but is a key control in the disbursement process to assure that purchase commitments receive prior approval, and to help reduce the possibility of School District funds being over expended or exceeding budgetary spending limitations as set by the Board of Education.

To improve controls over disbursements, it is recommendation that all School District non-payroll disbursements obtain prior certification of the fiscal officer. When that is not possible, a "Then and Now" Certificate should be executed.

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



**FINDING NUMBER 2005-002**

**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, 2005, the following special revenue funds had deficit balances as shown:

Fund	Deficit Balance
Special Revenue Funds:	
El Grant - Townsend Fund 019	(\$34)
Professional Development Fund 416	(1,290)
Education Management Information System Fund 432	(642)
Entry Year Grant Fund 440	(4,463)
One Network/Network Connectivity Fund 451	(2,062)
Title I Fund 572	(70,470)
Chapter 2 Fund 573	(587)
Pre-School Grant Fund 587	(2,414)

The deficit balances in these funds were associated with expenditures that were paid from these funds that will be reimbursed through grant monies or by the School District General Fund. We recommend the Treasurer have the Board advance or transfer funds in accordance with the provisions of the Ohio Revised Code to cover these deficits pending receipt of the grant funds, if applicable.

**FINDING NUMBER 2005-003**

**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, or in the case of appeal, the board of tax appeals. As of June 30, 2005, the following funds had total appropriations in excess of the certified estimated resources:

Fund	Estimated Resources	Appropriations	Excess
Capital Project Improvement Fund 003	\$133,680	\$220,000	(\$86,320)
Food Service Fund 006	520,848	559,000	(38,152)

Revenues were not sufficient in the Capital Project Improvement and Food Service Funds to allow the Treasurer to obtain an amended certificate to cover the appropriations adopted. 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 2005-004**

**Noncompliance Citation**

Ohio Revised Code § 5705.41 (B) states that no subdivision shall make any expenditure of money unless it has been lawfully appropriated. The School District's legal level of control is the function level for the General Fund and fund level for all other funds. Ohio Revised Code § 5705.38 (C) and Ohio Administrative Code § 117-6-2 requires that all funds be appropriated at least at the legal level of control established by the Board of Education, which is at least the fund level. The following funds had expenditures that exceeded appropriations in fiscal year 2005 at the legal level of control:

<u>Fund</u>	<u>Appropriations</u>	<u>Expenditures</u>	<u>Excess</u>
<b>General Fund:</b>			
Regular Instruction	\$5,323,440	\$5,357,773	(\$34,333)
Other Instruction	7,952	9,463	(1,511)
<b>Special Revenues Fund:</b>			
Public School Support Fund 018	1,152	205,097	(203,945)
Jennings/EI Grant Fund 019		325	(325)
Athletics Fund 300	1,760	191,253	(189,493)
Professional Development Fund 416		1,365	(1,365)
EMIS Subsidy Fund 432		6,600	(6,600)
Entry Year Grant Fund 440		800	(800)
One Net/Network Connectivity Fund 451		9,918	(9,918)
SchoolNet Professional Development Fund 452		2,307	(2,307)
Ohio Reads Fund 459		29	(29)
Summer School Intervention Fund 460		11,539	(11,539)
Miscellaneous State Grant Fund 499	3,906	9,936	(6,030)
Title VI-B Fund 516		262,618	(262,618)
Title I Fund 572		152,382	(152,382)
Chapter 2 Fund 573		245	(245)
Safe & Drug Free School Fund 584		5,389	(5,389)
Pre-School Fund 587		12,545	(12,545)
Classroom Reduction Fund 590		76,043	(76,043)
Miscellaneous Federal Grant Fund 599	500	3,350	(2,850)
<b>Capital Project Fund:</b>			
School Net Fund 450		13,020	(13,020)
<b>Trust Funds:</b>			
Expendable Trust Scholarship Fund 007		13669	(13,669)
Non-Expendable Trust Scholarship Fund 008	23	9523	(9,500)

**FINDING NUMBER 2005-004  
(Continued)**

Management was advised that the 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.

<b>3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS</b>
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None

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**MARGARETTA LOCAL SCHOOL DISTRICT  
ERIE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
JUNE 30, 2005**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2004-001	ORC § 5705.41 (D)(1) Failure of fiscal officer to certify expenditures	No	Not corrected. Reissued as finding 2005-001.
2004-002	ORC § 5705.10 Deficit cash basis fund balances.	No	Not Corrected. Reissued as finding 2005-002.
2004-003	ORC § 5705.39 Appropriations in excess of estimated resources.	No	Not corrected. Reissued as finding 2005-003.
2004-004	ORC § 5705.41 (B) Expenditures exceeding appropriations.	No	Not corrected. Reissued as finding 2005-004.





**Auditor of State  
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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  
JUNE 06, 2006**