

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2009



Mary Taylor, CPA
Auditor of State

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Margaretta Local School District, Erie County, Ohio (the District), as of and for the year ended June 30, 2009, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Margaretta Local School District, Erie County, Ohio, as of June 30, 2009, and the respective changes in financial position thereof and the budgetary comparison for the General fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 8, 2010, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. 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 District's basic financial statements. The schedule of federal awards receipts and expenditures 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 schedule of federal awards receipts and expenditures to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

April 8, 2010

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(UNAUDITED)**

The management's discussion and analysis of the Margaretta 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, 2009. 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 fiscal year 2009 are as follows:

- In total, net assets of governmental activities decreased \$108,752 which represents a 2.80% decrease from 2008.
- General revenues accounted for \$11,524,365 in revenue or 83.01% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$2,358,730 or 16.99% of total revenues of \$13,883,095.
- The District had \$13,991,847 in expenses related to governmental activities; only \$2,358,730 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 \$11,524,365 were not adequate to provide for these programs.
- The District's major governmental funds are the general fund and the building fund. The general fund had \$11,785,305 in revenues and \$12,343,573 in expenditures and other financing uses. During fiscal year 2009, the general fund's fund balance decreased \$558,268 from a fund balance of \$434,962 to a fund deficit of \$123,306.
- The building fund had \$64,450 in other financing sources and \$2,186,219 in expenditures. During fiscal year 2009, the building fund's fund balance decreased \$2,121,769 from \$2,180,046 to \$58,277.

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 and building fund are by far the most significant funds, and the only governmental funds reported as major funds.

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ERIE COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
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(UNAUDITED)

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 fiscal year 2009?" The statement of net assets and the statement of activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

In the statement of net assets and the statement of activities, the governmental activities include the District's programs and services, including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities, and food service operations.

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 major governmental funds are the general fund and the building 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

**MARGARETTA LOCAL SCHOOL DISTRICT
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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
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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. The table below provides a summary of the District's net assets at June 30, 2009 and June 30, 2008.

	Net Assets	
	Governmental Activities 2009	Governmental Activities 2008
<u>Assets</u>		
Current and other assets	\$ 7,491,193	\$ 10,958,020
Capital assets, net	<u>5,450,923</u>	<u>3,233,191</u>
Total assets	<u>12,942,116</u>	<u>14,191,211</u>
<u>Liabilities</u>		
Current liabilities	5,657,897	6,431,893
Long-term liabilities	<u>3,502,918</u>	<u>3,869,265</u>
Total liabilities	<u>9,160,815</u>	<u>10,301,158</u>
<u>Net Assets</u>		
Invested in capital assets, net or related debt	2,783,923	2,643,454
Restricted	452,340	364,075
Unrestricted	<u>545,038</u>	<u>882,524</u>
Total net assets	<u>\$ 3,781,301</u>	<u>\$ 3,890,053</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2009, the District's assets exceeded liabilities by \$3,781,301.

At year-end, capital assets represented 42.12% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2009, were \$2,783,923. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay

**MARGARETTA LOCAL SCHOOL DISTRICT
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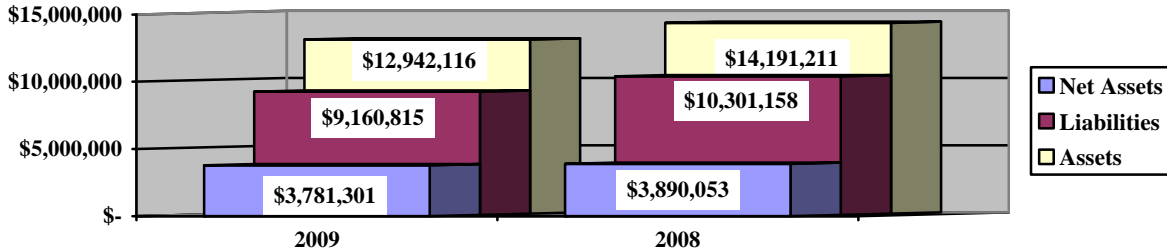
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
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the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$452,340, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$545,038 may be used to meet the District's ongoing obligations to the students and creditors.

The graph below illustrates the governmental activities assets, liabilities and net assets at June 30, 2009 and June 30, 2008:

Governmental Activities



The table below shows the change in net assets for fiscal years 2009 and 2008.

	Activities 2009	Activities 2008
Revenues		
Program revenues:		
Charges for services and sales	\$ 1,301,268	\$ 1,081,829
Operating grants and contributions	1,044,240	1,026,959
Capital grants and contributions	13,222	6,596
General revenues:		
Property taxes	5,361,764	6,089,665
Grants and entitlements	6,055,840	5,597,340
Investment earnings	66,768	179,212
Other	39,993	81,222
Total revenues	<u>\$ 13,883,095</u>	<u>\$ 14,062,823</u>

**MARGARETTA LOCAL SCHOOL DISTRICT
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**MANAGEMENT'S DISCUSSION AND ANALYSIS
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<u>Expenses</u>	<u>2009</u>	<u>2008</u>
Program expenses:		
Instruction:		
Regular	\$ 5,133,429	\$ 5,556,988
Special	1,416,910	1,444,173
Vocational	319,245	435,720
Other	7,438	5,659
Support services:		
Pupil	714,992	666,110
Instructional staff	695,256	714,549
Board of education	167,593	226,400
Administration	1,029,963	1,122,406
Fiscal	437,120	430,896
Operations and maintenance	1,560,398	1,510,177
Pupil transportation	1,031,991	1,079,529
Central	64,420	68,612
Operation of non-instructional services:		
Non-instructional services	227,718	173,563
Food service operations	539,050	618,349
Extracurricular activities	524,751	542,291
Interest and fiscal charges	<u>121,573</u>	<u>37,718</u>
Total expenses	<u>13,991,847</u>	<u>14,633,140</u>
Change in net assets	(108,752)	(570,317)
Net assets at beginning of year	<u>3,890,053</u>	<u>4,460,370</u>
Net assets at end of year	<u>\$ 3,781,301</u>	<u>\$ 3,890,053</u>

Governmental Activities

Net assets of the District's governmental activities decreased \$108,752. Total governmental expenses of \$13,991,847 were offset by program revenues of \$2,358,730 and general revenues of \$11,524,365. Program revenues supported 16.86% of the total governmental expenses.

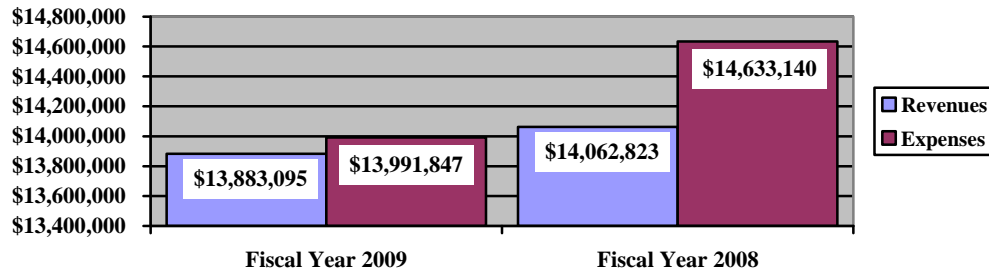
The primary sources of revenue for governmental activities are derived from property taxes and grants and entitlements. These two revenue sources represent 82.24% of total governmental revenue. Real estate property is reappraised every six years.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS
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The graph below presents the District's governmental activities revenue and expenses for fiscal years 2009 and 2008.

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 for fiscal years 2009 and 2008. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
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	Total Cost of Services 2009	Net Cost of Services 2009	Total Cost of Services 2008	Net Cost of Services 2008
Governmental Activities				
Program expenses				
Instruction:				
Regular	\$ 5,133,429	\$ 4,614,439	\$ 5,556,988	\$ 5,165,375
Special	1,416,910	976,180	1,444,173	950,033
Vocational	319,245	293,379	435,720	394,730
Other	7,438	7,438	5,659	5,659
Support services:				
Pupil	714,992	545,617	666,110	499,981
Instructional staff	695,256	619,523	714,549	678,951
Board of education	167,593	167,593	226,400	226,400
Administration	1,029,963	1,024,963	1,122,406	1,117,945
Fiscal	437,120	437,120	430,896	430,896
Operations and maintenance	1,560,398	1,534,166	1,510,177	1,508,904
Pupil transportation	1,031,991	972,074	1,079,529	1,031,107
Central	64,420	64,420	68,612	68,612
Operations of non-instructional services				
Non-instructional services	227,718	79,995	173,563	173,563
Food service operations	539,050	(99,673)	618,349	51,477
Extracurricular activities	524,751	274,310	542,291	176,405
Interest and fiscal charges	121,573	121,573	37,718	37,718
Total expenses	<u>\$ 13,991,847</u>	<u>\$ 11,633,117</u>	<u>\$ 14,633,140</u>	<u>\$ 12,517,756</u>

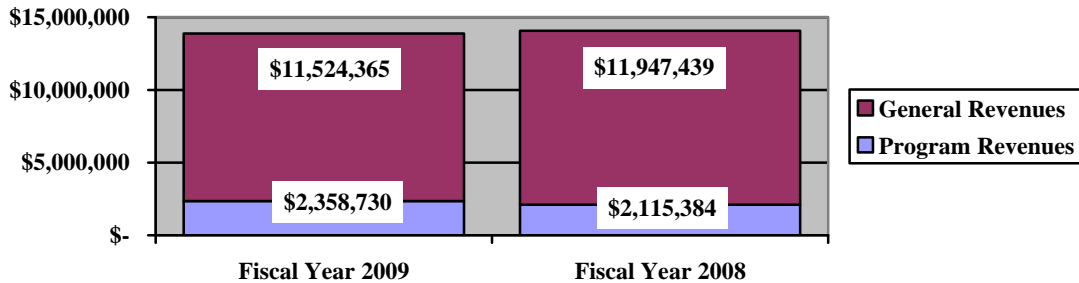
The dependence upon tax and other general revenues for governmental activities is apparent, 85.67% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 83.14%. The District's taxpayers and grants and entitlements not restricted to specific programs, as a whole, are by far the primary support for District's students.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS
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The graph below presents the District's governmental activities revenue for fiscal years 2009 and 2008.

Governmental Activities - General and Program Revenues



The District's Funds

The District's governmental funds reported a combined fund balance of \$84,999, which is less than last year's total of \$2,809,752. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2009 and June 30, 2008.

	Fund Balance (Deficit) <u>June 30, 2009</u>	Fund Balance <u>June 30, 2008</u>	<u>Decrease</u>
General	\$ (123,306)	\$ 434,962	\$ (558,268)
Building	58,277	2,180,046	(2,121,769)
Other Governmental	<u>150,028</u>	<u>194,744</u>	<u>(44,716)</u>
Total	<u>\$ 84,999</u>	<u>\$ 2,809,752</u>	<u>\$ (2,724,753)</u>

General Fund

The District's general fund balance decreased \$558,268 from a fund balance of \$434,962 to a fund deficit of \$123,306.

**MARGARETTA LOCAL SCHOOL DISTRICT
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MANAGEMENT'S DISCUSSION AND ANALYSIS
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The table that follows assists in illustrating the financial activities and fund balance of the general fund.

	2009 <u>Amount</u>	2008 <u>Amount</u>	Increase/ (Decrease)	Percentage Change
<u>Revenues</u>				
Taxes	\$ 4,872,491	\$ 5,759,297	\$ (886,806)	(15.40) %
Tuition	423,721	269,425	154,296	57.27 %
Earnings on investments	83,676	175,207	(91,531)	(52.24) %
Classroom materials and fees	57,528	59,182	(1,654)	(2.79) %
Intergovernmental	6,259,149	5,862,317	396,832	6.77 %
Other revenues	<u>88,740</u>	<u>104,815</u>	<u>(16,075)</u>	(15.34) %
Total	<u>\$ 11,785,305</u>	<u>\$ 12,230,243</u>	<u>\$ (444,938)</u>	(3.64) %
<u>Expenditures</u>				
Instruction	\$ 6,571,532	\$ 7,073,599	\$ (502,067)	(7.10) %
Support services	5,218,516	5,549,131	(330,615)	(5.96) %
Operation of non-instructional services	15,426	25,213	(9,787)	(38.82) %
Extracurricular activities	269,966	259,936	10,030	3.86 %
Facilities acquisition and construction	-	5,700	(5,700)	100.00 %
Debt service	<u>112,647</u>	<u>37,718</u>	<u>74,929</u>	100.00 %
Total	<u>\$ 12,188,087</u>	<u>\$ 12,951,297</u>	<u>\$ (763,210)</u>	(5.89) %

Overall revenues of the general fund decreased \$444,938 or 3.64%. The most significant decreases were in the areas of taxes and earnings on investments. Tax revenue decreased \$886,806 or 15.40% mainly due to the phase out of tangible personal property taxes. Earnings on investments decreased \$91,531 or 52.24%. This decrease can be attributed to declining interest rates during fiscal year 2009.

Intergovernmental revenue increased \$396,832 or 6.77% from the prior year. This increase is attributed to an increase in tangible personal property tax loss reimbursements from the State pursuant to Am. Sub. House Bill 66. Tuition revenue increased \$154,296 or 57.27% mainly due to an increase in open enrollment throughout the District.

Overall expenditures of the general fund decreased \$763,210 or 5.89%. The most significant decreases were in the areas of instruction and support services. Instruction and support services decreased \$502,067 and \$330,615, respectively. These decreases can mainly be attributed to an early retirement incentive that was offered to the District's employees during fiscal year 2008.

Building Fund

The building fund had \$64,450 in other financing sources and \$2,186,219 in expenditures. During fiscal year 2009, the building fund's fund balance decreased \$2,121,769 from \$2,180,046 to \$58,277 due to the completion of an addition to the Bogart Elementary building.

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
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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 year 2009, the District did not amend its general fund budgeted revenues. For the general fund, original budgeted revenues and other financing sources were \$11,104,491, which matched exactly to final budgeted amounts. Actual revenues and other financing sources for fiscal year 2009 were \$11,478,030. This represents a \$373,539 increase from final budgeted revenues and other financing sources mainly due to increased tuition from open enrollment.

General fund original appropriations (appropriated expenditures plus other financing uses) of \$12,405,539 were increased to \$12,904,450 in the final budget. The actual budget basis expenditures and other financing uses for fiscal year 2009 totaled \$12,955,994, which was \$51,544 greater than the final budget appropriations.

Capital Assets

At the end of fiscal year 2009, the District had \$5,450,923 invested in land, land improvements, buildings and improvements, furniture and equipment, and vehicles. This entire amount is reported in governmental activities. The following table shows capital assets, net of accumulated depreciation, at June 30, 2009 and June 30, 2008:

	Capital Assets at June 30 (Net of Depreciation)	
	<u>Governmental Activities</u>	
	<u>2009</u>	<u>2008</u>
Land	\$ 103,182	\$ 103,182
Land improvements	259,957	239,706
Buildings and improvements	4,479,666	1,728,478
Furniture and equipment	164,482	147,025
Vehicles	443,636	477,846
Construction in progress	<u>-</u>	<u>536,954</u>
Total	<u>\$ 5,450,923</u>	<u>\$ 3,233,191</u>

The overall increase in capital assets of \$2,217,732 is primarily due to total capital outlays of \$2,517,562 exceeding depreciation expense of \$271,653 and disposals of \$28,177 (net of accumulated depreciation) for fiscal year 2009.

**MARGARETTA LOCAL SCHOOL DISTRICT
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MANAGEMENT'S DISCUSSION AND ANALYSIS
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Debt Administration

At June 30, 2009, the District had \$2,667,000 in capital lease obligations. Of this amount, \$89,000 is due within one year and \$2,578,000 is due within greater than one year. The following table summarizes the debt outstanding at June 30, 2009 and June 30, 2008.

Outstanding Debt, at Year End

	Governmental Activities 2009	Governmental Activities 2008
Lease-purchase agreement	\$ 2,667,000	\$ 2,667,000
Total	\$ 2,667,000	\$ 2,667,000

See Note 10 to the basic financial statements for additional information on the District's debt administration.

Current Financial Related Activities

State funding is projected to be stagnant at least for two more years due to the fact that the District receives guaranteed State aide pursuant to the recently passed biennial budget by the Ohio General Assembly in which the funding formula remaining in tact over the two year cycle. The District's declining enrollment has resulted in a per pupil funding increase while remaining at virtually the same amount of State aide as fiscal year 2004. The only increasing revenue source to the District comes from changes in local tax revenue. Erie County completed a Sexennial Reappraisal in calendar year 2006, while Sandusky County completed a Triennial Update at the same time which impacted the District positively from the 5.70 mills not affected by the reduction of rates resulting from the provision of Ohio House Bill 920.

The State legislature continues to impact our business tax base by phasing out the tangible personal property tax over the next 2 years. The District continues to look at ways to reduce the operational expense while maintaining educational success. The District took action to consolidate facilities for the purpose of become more efficient. The District borrowed \$2,600,000 from the Ohio Association of School Business Officials (OASBO) Risk Sharing Pool Lease Purchase instrument to make the necessary capital improvements to facilitate the consolidation. The anticipated operational savings from the consolidation is in excess of \$500,000 annually. The net savings, after debt service, is anticipated to be in excess of \$300,000 and growing on an annual basis.

The District placed a 1% "Earned Income" tax levy before the voters in November of 2008, which was soundly defeated.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, 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.

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

STATEMENT OF NET ASSETS
JUNE 30, 2009

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents.	\$ 1,026,447
Cash with escrow agent.	71,071
Receivables:	
Taxes	6,192,340
Accounts	1,135
Intergovernmental	193,905
Accrued interest	1,649
Materials and supplies inventory	4,646
Capital assets:	
Land	103,182
Depreciable capital assets, net	5,347,741
Total capital assets, net.	5,450,923
 Total assets	 12,942,116
Liabilities:	
Accounts payable.	100,148
Accrued wages and benefits	1,215,849
Pension obligation payable.	316,540
Intergovernmental payable	94,143
Accrued interest payable	8,926
Unearned revenue	3,922,291
Long-term liabilities:	
Due within one year.	216,150
Due in more than one year	3,286,768
Total liabilities	9,160,815
Net Assets:	
Invested in capital assets, net of related debt.	2,783,923
Restricted for:	
Capital projects	272,904
Locally funded programs	42,151
State funded programs.	7,425
Federally funded programs	16,018
Student activities.	51,422
Public school support	62,420
Unrestricted.	545,038
 Total net assets	 \$ 3,781,301

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	Expenses	Program Revenues			Net (Expense)
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets
					Governmental Activities
Governmental activities:					
Instruction:					
Regular	\$ 5,133,429	\$ 481,249	\$ 37,741	\$ -	\$ (4,614,439)
Special	1,416,910	-	440,730	-	(976,180)
Vocational	319,245	-	25,866	-	(293,379)
Other	7,438	-	-	-	(7,438)
Support services:					
Pupil	714,992	-	169,375	-	(545,617)
Instructional staff	695,256	-	75,733	-	(619,523)
Board of education	167,593	-	-	-	(167,593)
Administration	1,029,963	-	5,000	-	(1,024,963)
Fiscal	437,120	-	-	-	(437,120)
Operations and maintenance	1,560,398	26,232	-	-	(1,534,166)
Pupil transportation	1,031,991	-	46,695	13,222	(972,074)
Central	64,420	-	-	-	(64,420)
Operation of non-instructional:					
Non-instructional services	227,718	147,723	-	-	(79,995)
Food service operations	539,050	395,623	243,100	-	99,673
Extracurricular activities	524,751	250,441	-	-	(274,310)
Interest and fiscal charges	121,573	-	-	-	(121,573)
Totals	\$ 13,991,847	\$ 1,301,268	\$ 1,044,240	\$ 13,222	(11,633,117)

General Revenues:

Property taxes levied for:	
General purposes	5,191,697
Capital projects	170,067
Grants and entitlements not restricted	
to specific programs	6,055,840
Investment earnings	66,768
Miscellaneous	39,993
Total general revenues	11,524,365
Change in net assets	(108,752)
Net assets at beginning of year	3,890,053
Net assets at end of year	\$ 3,781,301

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2009

	General	Building	Other Governmental Funds	Total Governmental Funds
Assets:				
Equity in pooled cash and cash equivalents . . .	\$ 594,429	\$ 37,206	\$ 394,812	\$ 1,026,447
Cash with escrow agent	-	71,071	-	71,071
Receivables:				
Taxes	5,990,728	-	201,612	6,192,340
Accounts	1,135	-	-	1,135
Intergovernmental	74,517	-	119,388	193,905
Accrued interest	1,649	-	-	1,649
Advances to other funds	50,000	-	-	50,000
Due from other funds	136,300	-	-	136,300
Materials and supplies inventory	-	-	4,646	4,646
Total assets	<u>\$ 6,848,758</u>	<u>\$ 108,277</u>	<u>\$ 720,458</u>	<u>\$ 7,677,493</u>
Liabilities:				
Accounts payable	\$ 89,161	\$ -	\$ 10,987	\$ 100,148
Accrued wages and benefits	1,129,287	-	86,562	1,215,849
Compensated absences payable	35,873	-	-	35,873
Retirement incentive payable	20,000	-	-	20,000
Pension obligation payable	281,924	-	34,616	316,540
Intergovernmental payable	88,945	-	5,198	94,143
Advances from other funds	-	50,000	-	50,000
Due to other funds	-	-	136,300	136,300
Deferred revenue	1,538,568	-	162,782	1,701,350
Unearned revenue	3,788,306	-	133,985	3,922,291
Total liabilities	<u>6,972,064</u>	<u>50,000</u>	<u>570,430</u>	<u>7,592,494</u>
Fund Balances:				
Reserved for encumbrances	82,552	103,883	142,076	328,511
Reserved for materials and supplies inventory	-	-	4,646	4,646
Reserved for advances	50,000	-	-	50,000
Reserved for property tax unavailable for appropriation	563,673	-	20,316	583,989
Unreserved, undesignated (deficit), reported in:				
General fund	(819,531)	-	-	(819,531)
Special revenue funds	-	-	(26,851)	(26,851)
Capital projects funds	-	(45,606)	9,841	(35,765)
Total fund balance (deficit)	<u>(123,306)</u>	<u>58,277</u>	<u>150,028</u>	<u>84,999</u>
Total liabilities and fund balances	<u>\$ 6,848,758</u>	<u>\$ 108,277</u>	<u>\$ 720,458</u>	<u>\$ 7,677,493</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2009

Total governmental fund balances		\$	84,999
 <i>Amounts reported for governmental activities on 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.			5,450,923
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Taxes receivable	\$	1,537,732	
Accrued interest receivable		1,649	
Intergovernmental receivable		161,969	
Total			1,701,350
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.			(8,926)
Long-term liabilities, including lease-purchase agreement and compensated absences, are not due and payable in the current period and therefore are not reported in the funds.			
Lease-purchase agreement		(2,667,000)	
Compensated absences payable		(780,045)	
Total			(3,447,045)
Net assets of governmental activities		\$	3,781,301

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	<u>General</u>	<u>Building</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
From local sources:				
Taxes	\$ 4,872,491	\$ -	\$ 160,856	\$ 5,033,347
Tuition	423,721	-	-	423,721
Charges for services	-	-	395,623	395,623
Earnings on investments	83,676	-	-	83,676
Extracurricular	-	-	375,565	375,565
Classroom materials and fees.	57,528	-	-	57,528
Rental income	26,232	-	-	26,232
Contributions and donations	-	-	54,898	54,898
Services provided to other entities	22,599	-	-	22,599
Other local revenues	39,909	-	84	39,993
Intergovernmental - state.	6,259,149	-	73,803	6,332,952
Intergovernmental - federal	-	-	596,586	596,586
Total revenues	<u>11,785,305</u>	<u>-</u>	<u>1,657,415</u>	<u>13,442,720</u>
Expenditures:				
Current:				
Instruction:				
Regular	5,050,521	-	74,514	5,125,035
Special.	1,169,276	-	254,373	1,423,649
Vocational.	344,297	-	-	344,297
Other.	7,438	-	-	7,438
Support Services:				
Pupil.	498,074	-	216,898	714,972
Instructional staff	629,078	-	57,657	686,735
Board of education	167,232	-	361	167,593
Administration.	1,021,442	-	6,999	1,028,441
Fiscal.	423,124	-	4,748	427,872
Operations and maintenance	1,421,263	-	2,187	1,423,450
Pupil transportation	993,883	-	-	993,883
Central.	64,420	-	-	64,420
Operation of non-instructional services:				
Non-instructional services.	15,426	-	212,292	227,718
Food service operations	-	-	540,960	540,960
Extracurricular activities	269,966	-	237,646	507,612
Facilities acquisition and construction	-	2,186,219	183,351	2,369,570
Debt service:				
Interest and fiscal charges	112,647	-	-	112,647
Total expenditures	<u>12,188,087</u>	<u>2,186,219</u>	<u>1,791,986</u>	<u>16,166,292</u>
Excess of expenditures over revenues.	<u>(402,782)</u>	<u>(2,186,219)</u>	<u>(134,571)</u>	<u>(2,723,572)</u>
Other financing sources (uses):				
Transfers in.	-	64,450	91,036	155,486
Transfers (out)	<u>(155,486)</u>	<u>-</u>	<u>-</u>	<u>(155,486)</u>
Total other financing sources (uses).	<u>(155,486)</u>	<u>64,450</u>	<u>91,036</u>	<u>-</u>
Net change in fund balances.	(558,268)	(2,121,769)	(43,535)	(2,723,572)
Fund balance at beginning of year	434,962	2,180,046	194,744	2,809,752
Decrease in reserve for inventory.	-	-	(1,181)	(1,181)
Fund balance (deficit) at end of year	<u>\$ (123,306)</u>	<u>\$ 58,277</u>	<u>\$ 150,028</u>	<u>\$ 84,999</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

Net change in fund balances - total governmental funds \$ (2,723,572)

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 expense in the current period.

Capital asset additions	\$	2,517,562	
Current year depreciation		<u>(271,653)</u>	
 Total			 2,245,909

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net assets. (28,177)

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

Taxes		328,417	
Earnings on investments		(16,908)	
Intergovernmental		<u>128,866</u>	
 Total			 440,375

In the statement of activities, interest is accrued on lease purchase agreements, whereas in governmental funds, an interest expenditure is reported when due. This resulted in more interest being reported in the statement of activities. (8,926)

Governmental funds report expenditures for inventory when purchased. However, in the statement of activities they are reported as an expense when consumed. (1,181)

Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. (33,180)

Change in net assets of governmental activities \$ (108,752)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Taxes	\$ 4,633,355	\$ 4,633,355	\$ 4,605,562	\$ (27,793)
Tuition	10,000	10,000	423,721	413,721
Earnings on investments	119,427	119,427	76,277	(43,150)
Classroom materials and fees.	58,000	58,000	57,528	(472)
Rental income	1,500	1,500	26,232	24,732
Services provided to other entities	22,000	22,000	22,599	599
Other local revenues	50,500	50,500	38,774	(11,726)
Intergovernmental - state.	6,209,609	6,209,609	6,227,213	17,604
Total revenues	<u>11,104,391</u>	<u>11,104,391</u>	<u>11,477,906</u>	<u>373,515</u>
Expenditures:				
Current:				
Instruction:				
Regular	5,053,999	5,178,499	5,349,960	(171,461)
Special.	1,121,848	1,273,848	1,270,929	2,919
Vocational.	345,819	400,319	391,635	8,684
Other	-	7,500	7,438	62
Support Services:				
Pupil.	545,266	511,266	506,900	4,366
Instructional staff	610,443	642,443	632,736	9,707
Board of education	215,297	182,497	173,015	9,482
Administration.	1,094,650	1,131,850	1,075,118	56,732
Fiscal	432,808	403,308	402,402	906
Operations and maintenance.	1,407,458	1,526,118	1,520,024	6,094
Pupil transportation	977,391	1,014,891	1,005,643	9,248
Central.	70,843	71,343	63,283	8,060
Operation of non-instructional services	20,500	20,750	20,682	68
Extracurricular activities.	275,670	271,670	268,096	3,574
Debt service:				
Interest and fiscal charges	108,547	112,648	112,647	1
Total expenditures	<u>12,280,539</u>	<u>12,748,950</u>	<u>12,800,508</u>	<u>(51,558)</u>
Excess of expenditures over revenues.	<u>(1,176,148)</u>	<u>(1,644,559)</u>	<u>(1,322,602)</u>	<u>321,957</u>
Other financing sources (uses):				
Refund of prior year expenditures.	100	100	124	24
Transfers (out).	(125,000)	(155,500)	(155,486)	14
Total other financing sources (uses)	<u>(124,900)</u>	<u>(155,400)</u>	<u>(155,362)</u>	<u>38</u>
Net change in fund balance.	(1,301,048)	(1,799,959)	(1,477,964)	321,995
Fund balance at beginning of year	1,841,590	1,841,590	1,841,590	-
Prior year encumbrances appropriated	247,814	247,814	247,814	-
Fund balance at end of year.	<u>\$ 788,356</u>	<u>\$ 289,445</u>	<u>\$ 611,440</u>	<u>\$ 321,995</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2009

	Private-Purpose Trust	
	Scholarship	Agency
Assets:		
Equity in pooled cash and cash equivalents	\$ 343,868	\$ 20,326
Receivables:		
Accrued interest	737	-
	344,605	-
Total assets	344,605	\$ 20,326
Liabilities:		
Accounts payable	-	\$ 6,505
Due to students	-	13,821
	-	13,821
Total liabilities	-	\$ 20,326
Net Assets:		
Held in trust for scholarships	344,605	
Total net assets	\$ 344,605	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	Private-Purpose Trust
	Scholarship
Additions:	
Interest	\$ 6,621
Gifts and contributions	23,031
	29,652
Total additions.	29,652
Deductions:	
Scholarships awarded	25,414
	4,238
Change in net assets	4,238
Net assets at beginning of year.	340,367
Net assets at end of year	\$ 344,605

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

The Margaretta 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 396th largest in the State of Ohio among 922 public and community schools in terms of enrollment. It currently operates 2 elementary schools and 1 high school. The District employs 79 non-certified employees and 85 certified (including administrative) employees to provide services to approximately 1,325 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 and component units. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, food service, 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 Governing Board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Certain organizations are also included as component units if the nature and significance of the relationship between the primary government and the organization is such that exclusion by the primary government would render the primary

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

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

government's financial statements incomplete or misleading. 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:

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. The amount paid in fiscal year 2009 was \$101,510. Financial information can be obtained by contacting the North Point 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. The amount paid in fiscal year 2009 was \$50,561. 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

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

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

Plan. Each year, the participating school districts pay an enrollment fee to the Plan to cover the costs of administering the program.

Schools of Ohio Risk Sharing Authority

The District participates in the Schools of Ohio Risk Sharing Authority Board (SORSA), an insurance purchasing pool. SORSA's business affairs are conducted by a nine member

Board of directors consisting of a President, Vice President, Secretary, Treasurer and five delegates. SORSA was created to provide joint self-insurance coverage and to assist members to prevent and reduce losses and injuries to the District's property and person. It is intended to provide liability and property insurance at reduced premiums for the participants. SORSA is organized as a nonprofit corporation under provisions of Ohio Revised Code 2744.

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.

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 are the District's only major governmental funds:

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

Building fund - The building capital projects fund is used to account for all transactions related to the acquiring, constructing or improving buildings for the District.

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

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

Other governmental funds of the District are used to account for (a) financial resources to be used for the acquisition, construction, or improvement of capital facilities other than those financed by trust funds; (b) food service operations; and (c) 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.

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.

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

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

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

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

D. Basis of Accounting

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

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

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and 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.

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

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

Unearned Revenue and Deferred Revenue - Unearned revenue and deferred revenue arise 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, 2009, but which were levied to finance fiscal year 2010 operations, and other revenues received in advance of the fiscal year for which they are intended to finance, have been recorded as unearned revenue. Grants and entitlements received before the eligibility requirements are met and delinquent property taxes due at June 30, 2009 are recorded as deferred revenue on the governmental fund financial statements.

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

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The entitlement 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. Allocations 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, function, object level for the general fund and at the fund level for all other funds.

Any budgetary modifications at this level may only be made by resolution of the Board of Education.

Tax Budget:

Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The 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.

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

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

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 July 1, 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 certificates of estimated resources 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 legal level of budgetary control 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.

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.

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

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

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

expenditures on a non-GAAP budgetary basis in order to demonstrate legal compliance. Note 15 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 2009, investments were limited to nonnegotiable certificates of deposits 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 year 2009. 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 shares price which is the price the investment could be sold for on June 30, 2009.

Under existing Ohio statutes all investment earnings 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 2009 amounted to \$83,676, which includes \$45,348 assigned from other funds.

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

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

G. Inventory

On government-wide financial statements, purchased inventories are presented at the lower of cost or market and donated commodities are presented at their entitlement value. Inventories are recorded 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.

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

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

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 deductions 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 \$5,000. 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 loan receivables/payables." On the fund financial statements, receivables and payables resulting from long-term interfund loans are classified as "advances to/advances from other funds". These amounts are eliminated in the governmental activities column on the statement of net assets.

On fund financial statements, receivables and payables resulting from short-term interfund loans from the general fund to cover negative cash balances in other governmental funds are classified as "due to/from other funds." These amounts are eliminated in the governmental type activities columns on the statement of net assets.

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.

**MARGARETTA LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

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

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. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination (severance) payments. A liability for sick leave 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.

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

For governmental fund financial statements, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported.

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 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, advances, property taxes unavailable for appropriation, and materials and supplies inventory. The reserve for property taxes unavailable for

**MARGARETTA LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

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

appropriation represents taxes recognized as revenue under GAAP, but not available for appropriation under State statute.

M. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

N. 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.

O. 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.

P. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2009.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2009, the District has implemented GASB Statement No. 49, "Accounting and Financial Reporting for Pollution Remediation Obligations", GASB Statement No. 52, "Land and Other Real Estate Held as Investments by Endowments", GASB Statement No. 55, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments",

**MARGARETTA LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

and GASB Statement No. 56 "Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards".

GASB Statement No. 49 addresses accounting and financial reporting standards for pollution remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The implementation of GASB Statement No. 49 did not have an effect on the financial statements of the District.

GASB Statement No. 52 establishes consistent standards for the reporting of land and other real estate held as investments by essentially similar entities. It requires endowments to report their land and other real estate investments at fair value. The implementation of GASB Statement No. 52 did not have an effect on the financial statements of the District.

GASB Statement No. 55 incorporates the hierarchy of generally accepted accounting principles (GAAP) for state and local governments into the GASB's authoritative literature. The implementation of GASB Statement No. 55 did not have an effect on the financial statements of the District.

GASB Statement No. 56 incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance presented in the American Institute of Certified Public Accountants' (AICPA) Statements on Auditing Standards. The implementation of GASB Statement No. 56 did not have an effect on the financial statements of the District.

B. Deficit Fund Balances

Fund balances at June 30, 2009 included the following individual fund deficits:

<u>Major fund</u>	<u>Deficit</u>
General fund	\$123,306
 <u>Nonmajor funds</u>	
Food service	622
Teacher development	1,140
Data communications grant	8,340
Miscellaneous state grants	4,501
Title VI-B	118,551
Title I	47,540
Drug free school grant	1,490
Classroom reduction	16,483

The deficit fund balances result from adjustments for accrued liabilities or from negative cash balances at fiscal year end (See note 5.A).

**MARGARETTA LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal 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 items (1) and (2) above 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);

**MARGARETTA LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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

collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

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

A. Cash with Escrow Agent

At fiscal year end, the District had \$71,071 on deposit in escrow accounts related to the lease-purchase agreement described in Note 9. This amount is not included in the total amount of deposits reported below as this amount is not part of the internal cash pool and, therefore, is reported separately on the financial statements as "cash with escrow agent".

B. Cash on Hand

At fiscal year end, the District had \$240 in undeposited cash on hand which is included on the financial statements of the District as part of "equity in pooled cash and cash equivalents."

C. Deposits with Financial Institutions

At June 30, 2009, the carrying amount of all District deposits was \$1,065,965. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2009, \$647,686 of the District's bank balance of \$1,147,686 was exposed to custodial risk as discussed below, while \$500,000 was covered by the FDIC.

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

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

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

collateral held at the Federal Reserve Bank in the name of the District. The District has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the District to a successful claim by the FDIC.

D. Investments

As of June 30, 2009, the District had the following investments and maturities:

<u>Investment type</u>	<u>Investment Maturities</u>	
<u>Fair Value</u>	<u>6 months or less</u>	
STAR Ohio	\$ 324,436	\$ 324,436

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.

Credit Risk: Standard & Poor's has assigned STAR Ohio and AAAM money market rating. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Treasurer or qualified trustee.

Concentration of Credit Risk: The District 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, 2009:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
STAR Ohio	\$ 324,436	100.00

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net assets as of June 30, 2009:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 1,065,965
Cash with escrow agent	71,071
Investments	324,436
Cash on hand	<u>240</u>
 Total	 <u>\$ 1,461,712</u>
 <u>Cash and investments per statement of net assets</u>	
Governmental activities	\$ 1,097,518
Private-purpose trust funds	343,868
Agency fund	<u>20,326</u>
 Total	 <u>\$ 1,461,712</u>

NOTE 5 - INTERFUND TRANSACTIONS

A. Interfund balances at June 30, 2009 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	\$136,300

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

Interfund balances between governmental funds are eliminated on the government-wide financial statements.

B. Interfund transfers for the year ended June 30, 2009, consisted of the following, as reported on the fund financial statements:

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

NOTE 5 - INTERFUND TRANSACTIONS - (Continued)

Transfers to nonmajor governmental funds from:	<u>Amount</u>
General fund	\$91,036
Transfers to Building fund from:	
General fund	\$ 64,450

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.

All transfers made in fiscal year 2009 were in accordance with Ohio Revised Code Sections 5705.14, 5705.15 and 5705.16.

- C.** Long-term advances to/from other funds at June 30, 2009 as reported on the fund statements, consisted of the following:

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
General	Building	\$ 50,000

The primary purpose of the advances is to cover costs in specific funds where revenues were not received by June 30, 2009. These advances will be repaid once anticipated revenues are received. All long-term advances are not expected to be repaid within one year.

Advances between governmental funds are eliminated on the government-wide financial statements.

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.

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

NOTE 6 - PROPERTY TAXES - (Continued)

Property taxes include amounts levied against all real property, public utility property and tangible personal (used in business) property located in the District. Real property tax revenues received in calendar year 2009 represent the collection of calendar year 2008 taxes. Real property taxes received in calendar year 2009 were levied after April 1, 2008, on the assessed values as of January 1, 2008, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, 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 revenues received in calendar year 2009 represent the collection of calendar year 2008 taxes. Public utility real and tangible personal property taxes received in calendar year 2009 became a lien on December 31, 2007, were levied after April 1, 2008, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax revenues received in calendar year 2009 (other than public utility property) represent the collection of calendar year 2009 taxes levied against local and inter-exchange telephone companies. Tangible personal property tax on business inventory, manufacturing machinery and equipment, and furniture and fixtures is no longer levied and collected. The October 2008 tangible personal property tax settlement was the last property tax settlement for general personal property taxes. Tangible personal property taxes received from telephone companies in calendar year 2009 were levied after October 1, 2008, on the value as of December 31, 2008. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, 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 Counties. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2009, are available to finance fiscal year 2009 operations. The amount available as an advance at June 30, 2009 was \$563,673 in the general fund and \$20,316 in the permanent improvement fund (a nonmajor governmental fund). These amounts are recorded as revenue. The amount available as an advance at June 30, 2008 was \$441,155 in the general fund and \$16,052 in the permanent improvement fund (a nonmajor governmental fund). The amount of second-half real property taxes available for advance at fiscal year end can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2009 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 unearned revenue.

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

NOTE 6 - PROPERTY TAXES - (Continued)

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

The assessed values upon which the fiscal year 2009 taxes were collected are:

	2008 Second Half Collections		2009 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 158,983,170	91.41	\$ 160,630,820	92.50
Public utility personal	8,132,470	4.68	6,506,610	3.75
Tangible personal property	<u>6,799,630</u>	<u>3.91</u>	<u>6,521,410</u>	<u>3.75</u>
Total	<u>\$ 173,915,270</u>	<u>100.00</u>	<u>\$ 173,658,840</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$60.75		\$56.80	

NOTE 7 - RECEIVABLES

Receivables at June 30, 2009 consisted of taxes, accounts, 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:

Property taxes	\$ 6,192,340
Intergovernmental	193,905
Accounts	1,135
Accrued interest	<u>1,649</u>
Total	<u>\$ 6,389,029</u>

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

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

NOTE 8 - CAPITAL ASSETS

A. Capital asset activity for the fiscal year ended June 30, 2009, was as follows:

Governmental activities:	Balance 06/30/08	Additions	Deductions	Balance 06/30/09
<i>Capital assets, not being depreciated:</i>				
Land	\$ 103,182	\$ -	\$ -	\$ 103,182
Construction in progress	536,954	2,227,496	(2,764,450)	-
Total capital assets, non being depreciate	<u>640,136</u>	<u>2,227,496</u>	<u>(2,764,450)</u>	<u>103,182</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	1,218,096	54,896	-	1,272,992
Building and improvements	5,384,828	2,875,708	-	8,260,536
Furniture and equipment	582,921	52,355	(16,000)	619,276
Vehicles	1,400,556	71,557	(131,769)	1,340,344
Total capital assets, being depreciated	<u>8,586,401</u>	<u>3,054,516</u>	<u>(147,769)</u>	<u>11,493,148</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(978,390)	(34,645)	-	(1,013,035)
Building and improvements	(3,656,350)	(124,520)	-	(3,780,870)
Furniture and equipment	(435,896)	(19,898)	1,000	(454,794)
Vehicles	(922,710)	(92,590)	118,592	(896,708)
Total accumulated depreciation	<u>(5,993,346)</u>	<u>(271,653)</u>	<u>119,592</u>	<u>(6,145,407)</u>
Governmental activities capital assets, net	<u>\$ 3,233,191</u>	<u>\$ 5,010,359</u>	<u>\$ (2,792,627)</u>	<u>\$ 5,450,923</u>

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 79,740
Special	1,144
<u>Support services:</u>	
Administration	6,651
Operations and maintenance	19,674
Pupil transportation	106,521
<u>Operation of non-instructional services:</u>	
Food service operations	5,928
Extracurricular activities	<u>51,995</u>
Total depreciation expense	<u>\$ 271,653</u>

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

NOTE 9 - LEASE-PURCHASE AGREEMENT

During a prior fiscal year, the District entered into a lease-purchase agreement with Columbus Regional Airport Authority. The lease meets the criteria of a lease-purchase as defined by FASB Statement No. 13, "Accounting for Leases", which defines a lease-purchase generally as one which transfers benefits and risks of ownership to the lessee. The lease was used to fund the District's capital improvement project. Capital assets acquired by the lease purchase have been capitalized in the amount of \$2,764,450. Accumulated depreciation at June 30, 2009 was \$34,556 leaving a book value of \$2,729,894. Lease-purchase payments have been reflected as debt service expenditures in the general fund. There were no principal payments in fiscal year 2009. The agreement required the District to establish an escrow account with US Bank. The District will drawdown funds from this account as construction bills become due. The balance in this account at June 30, 2009 was \$71,071.

The following is a schedule of the future long-term minimum lease payments required under the lease-purchase agreement and the present value of the minimum lease payments as of June 30, 2009.

<u>Fiscal Year Ending June 30,</u>	<u>Total</u>
2010	\$ 199,770
2011	199,929
2012	198,941
2013	198,806
2014	198,501
2015 - 2019	990,295
2020 - 2024	982,723
2025 - 2028	<u>968,868</u>
Total minimum lease payments	3,937,833
Less: amount representing interest	<u>(1,270,833)</u>
Present value of minimum lease payments	<u>\$ 2,667,000</u>

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

NOTE 10 - LONG-TERM OBLIGATIONS

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

	Balance Outstanding <u>06/30/08</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>06/30/09</u>	Amounts Due in <u>One Year</u>
Lease-purchase agreement	\$ 2,667,000	\$ -	\$ -	\$ 2,667,000	\$ 89,000
Compensated absences	<u>1,202,265</u>	<u>206,815</u>	<u>(573,162)</u>	<u>835,918</u>	<u>127,150</u>
Total governmental activities:	<u>\$ 3,869,265</u>	<u>\$ 206,815</u>	<u>\$ (573,162)</u>	<u>\$ 3,502,918</u>	<u>\$ 216,150</u>

Compensated Absences: Compensated absences will be paid from the fund from which the employee's salaries are paid which, for the District, are primarily the general fund and the food service fund (a nonmajor governmental fund).

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 code additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1% of the property valuation of the District. The assessed valuation used in determining the District's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District's legal debt margin calculation excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The effects of these debt limitations at June 30, 2009, are a voted debt margin of \$15,042,369 and an unvoted debt margin of \$167,137.

NOTE 11 - 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 three percent of the total sick leave accumulation, up to a maximum accumulation of seventy days for all employees. An employee receiving such payment must meet the retirement provisions set by STRS Ohio and SERS.

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

NOTE 11 - OTHER EMPLOYEE BENEFITS – (Continued)

B. Early Retirement Incentive - STRS Ohio

The District provides an early retirement incentive plan for State Teacher's Retirement System of Ohio (STRS Ohio) employees who are eligible for retirement under STRS Ohio guidelines and retired effective at the end of fiscal years 2008 and 2009. Employees who enroll in the early retirement incentive plan will receive a cash payment in addition to their severance payment. This is an opportunity for those eligible in fiscal years 2009 and 2010. Employees who enroll in the early retirement incentive plan must submit written notification to the Board on or before March 31, 2008, for fiscal year 2009, and March 31, 2009, for fiscal year 2010. The early retirement incentive amounts are paid in two cash payments in June 2008 and January 2009 for those retiring in fiscal year 2009, and two cash payments in June 2009 and January 2010, for those retiring in fiscal year 2010. Nine employees took advantage of the early retirement incentive in fiscal year 2009 and two employees in fiscal year 2010. A liability for the early retirement incentive payments has been recorded in the fund financial statements for the amount expected to be liquidated with expendable available financial resources. The entire liability is recorded on the statement of net assets.

C. 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.

NOTE 12 - RISK MANAGEMENT

A. Comprehensive

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. During fiscal year 2009, the District has contracted with the Schools of Ohio Risk Sharing Authority (SORSA) to provide insurance coverage in the following amounts:

<u>Limits of Coverage</u>	<u>Carrier</u>	<u>Coverage</u>	<u>Deductible</u>
General liability:			
Each occurrence	Indiana Insurance	\$ 1,000,000	\$ -
Aggregate		5,000,000	-
Fleet:			
Comprehensive	Indiana Insurance	3,000,000	500
Collision			500
Umbrella liability	Indiana Insurance	2,000,000	-
Building and contents	Indiana Insurance	35,725,177	1,000

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.

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

NOTE 12 - RISK MANAGEMENT - (Continued)

B. Huron-Erie School Employees Insurance Association

The District has contracted with the Huron-Erie School Employees Insurance Association (Association) to provide medical/surgical, prescription drug and dental 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 14. As such, no funding provisions are required by the District.

C. OSBA Workers' Compensation Group Rating Plan

For fiscal year 2009, 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.

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 13 - PENSION PLANS

A. School Employees Retirement System

Plan Description - The District contributes to the School Employees Retirement System (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone

**MARGARETTA LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

NOTE 13 - PENSION PLANS - (Continued)

financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under *Forms and Publications*.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2009, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2009, 2008 and 2007 were \$182,680, \$195,435 and \$207,641, respectively; 43.74 percent has been contributed for fiscal year 2009 and 100 percent for fiscal years 2008 and 2007.

B. State Teachers Retirement System of Ohio

Plan Description - The District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio website at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. 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 a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. 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. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. 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

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

NOTE 13 - PENSION PLANS - (Continued)

Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy - For fiscal year 2009, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2009, 2008 and 2007 were \$773,787, \$752,565 and \$757,456, respectively; 84.95 percent has been contributed for fiscal year 2009 and 100 percent for fiscal years 2008 and 2007. Contributions to the DC and Combined Plans for fiscal year 2009 were \$627 made by the District and \$1,089 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS/STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2009, certain members of the Board of Education have elected Social Security. The District's liability is 6.2 percent of wages paid.

NOTE 14 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description - The District participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2009, 4.16 percent of covered payroll was allocated to health care. In addition, employers pay a

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

NOTE 14 - POSTEMPLOYMENT BENEFITS - (Continued)

surcharge for employees earning less than an actuarially determined amount; for 2009, the actuarially determined amount was \$35,800.

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

The District's contributions for health care (including surcharge) for the fiscal years ended June 30, 2009, 2008, and 2007 were \$116,616, \$120,947 and \$100,710, respectively; 43.74 percent has been contributed for fiscal year 2009 and 100 percent for fiscal years 2008 and 2007.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2009, this actuarially required allocation was 0.75 percent of covered payroll. The District's contributions for Medicare Part B for the fiscal years ended June 30, 2009, 2008, and 2007 were \$15,073, \$14,082 and \$14,122, respectively; 43.74 percent has been contributed for fiscal year 2009 and 100 percent for fiscal years 2008 and 2007.

B. State Teachers Retirement System of Ohio

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

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2009, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The District's contributions for health care for the fiscal years ended June 30, 2009, 2008, and 2007 were \$59,522, \$57,890 and \$58,266, respectively; 84.95 percent has been contributed for fiscal year 2009 and 100 percent for fiscal years 2008 and 2007.

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING

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

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING

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); and
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to a reservation of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis).

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

Net Change in Fund Balance

	<u>General fund</u>
Budget basis	\$ (1,477,964)
Net adjustment for revenue accruals	307,399
Net adjustment for expenditure accruals	493,188
Net adjustment for other sources/(uses)	(124)
Adjustment for encumbrances	119,233
GAAP basis	\$ (558,268)

NOTE 16 - CONTINGENCIES

A. Grants

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

B. Litigation

The District is not party to legal proceedings which, in the opinion of District management, will have a material effect, if any, on the financial condition of the District.

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

NOTE 17 - STATUTORY RESERVES

The District is required by State statute to annually set-aside in the general fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at year end. These amounts must be carried forward to be used for the same purposes in future years. During the fiscal year ended June 30, 2009, the reserve activity was as follows:

	<u>Textbooks/ Instructional Materials</u>	<u>Capital Acquisition</u>
Set-aside balance as of June 30, 2008	\$ (1,621,937)	\$ -
Current year set-aside requirement	215,477	215,477
Current year offsets	-	(152,675)
Qualifying disbursements	<u>(220,486)</u>	<u>(511,612)</u>
Total	<u>\$ (1,626,946)</u>	<u>\$ (448,810)</u>
Balance carried forward to fiscal year 2010	<u>\$ (1,626,946)</u>	<u>\$ -</u>

The District had 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**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2009**

FEDERAL GRANTOR <i>Pass Through Grantor</i> <u>Program Title</u>	Federal CFDA Number	Receipts	Disbursements
UNITED STATES DEPARTMENT OF AGRICULTURE			
<i>Passed through the Ohio Department of Education</i>			
<u>Child Nutrition Cluster:</u>			
School Breakfast Program	10.553	29,390	29,390
National School Lunch Program	10.555		
Cash Assistance		204,127	204,127
Non-cash Assistance (Food Distribution)		27,414	27,414
Total - National School Lunch Program		<u>231,541</u>	<u>231,541</u>
Total United States Department of Agriculture		<u>260,931</u>	<u>260,931</u>
UNITED STATES DEPARTMENT OF EDUCATION			
<i>Passed through the Ohio Department of Education</i>			
<u>Special Education Cluster:</u>			
Special Education - Grants to States	84.027	378,223	378,908
Special Education - Preschool Grants	84.173	17,013	14,314
Total - Special Education Cluster		<u>395,236</u>	<u>393,222</u>
Title I Grants to Local Educational Agencies	84.010	125,232	123,802
Safe and Drug Free Schools and Communities - State Grants	84.186	4,931	3,542
State Grants for Innovative Programs	84.298	838	830
Education Technology State Grants	84.318	132	2,023
Improving Teacher Quality State Grants	84.367	63,062	45,595
Total United States Department of Education		<u>589,431</u>	<u>569,014</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE		<u>\$ 850,362</u>	<u>\$ 829,945</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THIS SCHEDULE.

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FISCAL YEAR ENDED JUNE 30, 2009**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Receipts and Expenditures (the Schedule) reports the Margarett Local School District's (the District's) federal award programs' receipts and disbursements. The schedule has been prepared on the cash basis of accounting.

NOTE B - CHILD NUTRITION CLUSTER

The District commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the District assumes it expends federal monies first.

NOTE C – FOOD DONATION PROGRAM

The District reports commodities consumed on the Schedule at the fair value. The District allocated donated food commodities to the respective program that benefitted from the use of those donated food commodities.

NOTE D - MATCHING REQUIREMENTS

Certain Federal programs require the District to contribute non-Federal funds (matching funds) to support the Federally-funded programs. The District has met its matching requirements. The Schedule does not include the expenditure of non-Federal matching funds.

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Mary Taylor, CPA

Auditor of State

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

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, each major fund, and the aggregate remaining fund information of Margaretta Local School District, Erie County, (the District) as of and for the year ended June 30, 2009, which collectively comprise the District's basic financial statements and have issued our report thereon dated April 8, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinions on the financial statements, but not to opine on the effectiveness of the District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the District's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the District's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

We noted certain matters that we reported to the District's management in a separate letter dated April 8, 2010.

Compliance and Other Matters

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

We did note certain noncompliance or other matters that we reported to the District's management in a separate letter dated April 8, 2010.

We intend this report solely for the information and use of management, the Board of Education, federal awarding agencies and pass-through entities. We intend it for no one other than these specified parties.

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

Mary Taylor, CPA
Auditor of State

April 8, 2010



Mary Taylor, CPA

Auditor of State

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 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, 2009. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal programs. The 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 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 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 District's compliance with those requirements.

In our opinion, the Margaretta Local 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, 2009.

Internal Control Over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could directly and materially affect a major federal program in order to

determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A *control deficiency* in internal control over compliance exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent or detect noncompliance with a federal program compliance requirement on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a federal program such that there is more than a remote likelihood that the District's internal control will not prevent or detect more-than-inconsequential noncompliance with a federal program compliance requirement.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that the District's internal control will not prevent or detect material noncompliance with a federal program's compliance requirements.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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.



Mary Taylor, CPA
Auditor of State

April 8, 2010

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2009**

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 weaknesses reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other significant deficiencies in internal control 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)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weaknesses reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other significant deficiencies in internal control 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: Special Education Grants to States CFDA # 84.027 and Special Education – Preschool Grant CFDA # 84.173
<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**

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2009

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2008-001	Material weakness due to adjustments to the financial statements.	Yes	



Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

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

To the Board of Education:

Ohio Rev. Code Section 117.53 states "the auditor of state shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The auditor of state shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school."

Accordingly, we have performed the procedures enumerated below, which were agreed to by the Board, solely to assist the Board in evaluating whether the Margaretta Local School District (the District) has adopted an anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the Board. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

1. We noted the Board adopted an anti-harassment policy at its meeting on December 19, 2007.
2. We read the policy, noting it included the following requirements from Ohio Rev. Code Section 3313.666(B):
 - (1) A statement prohibiting harassment, intimidation, or bullying of any student on school property or at school-sponsored events;
 - (2) A definition of harassment, intimidation, or bullying that includes the definition in division (A) of Ohio Rev. Code Section 3313.666;
 - (3) A procedure for reporting prohibited incidents;
 - (4) A requirement that school personnel report prohibited incidents of which they are aware to the school principal or other administrator designated by the principal;

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- (5) A requirement that parents or guardians of any student involved in a prohibited incident be notified and, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended, have access to any written reports pertaining to the prohibited incident;
- (6) A procedure for documenting any prohibited incident that is reported;
- (7) A procedure for responding to and investigating any reported incident;
- (8) A strategy for protecting a victim from additional harassment, intimidation, or bullying, and from retaliation following a report;
- (9) A disciplinary procedure for any student guilty of harassment, intimidation, or bullying, which shall not infringe on any student's rights under the first amendment to the Constitution of the United States;
- (10) A requirement that the district administration semiannually provide the president of the district board a written summary of all reported incidents and post the summary on its web site, if the district has a web site, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board and is not intended to be and should not be used by anyone other than these specified parties.



Mary Taylor, CPA
Auditor of State

April 8, 2010



Mary Taylor, CPA
Auditor of State

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
MAY 6, 2010**