

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

**BASIC FINANCIAL STATEMENTS  
(AUDITED)**

*FOR THE FISCAL YEAR ENDED  
JUNE 30, 2016*

**JUDE HAMMOND, TREASURER**





# Dave Yost • Auditor of State

Board of Education  
Margaretta Local School District  
305 South Washington Street  
Castalia, Ohio 44824

We have reviewed the *Independent Auditor's Report* of the Margaretta Local School District, Erie County, prepared by Julian & Grube, Inc., for the audit period July 1, 2015 through June 30, 2016. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Margaretta Local School District is responsible for compliance with these laws and regulations.

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

Dave Yost  
Auditor of State

February 14, 2017

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

TABLE OF CONTENTS

Independent Auditor’s Report .....	1 - 2
Management’s Discussion and Analysis .....	3 - 13
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Position .....	15
Statement of Activities .....	16
Fund Financial Statements:	
Balance Sheet - Governmental Funds .....	17
Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities.....	18
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.....	19
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities .....	20
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) - General Fund .....	21
Statement of Fiduciary Net Position - Fiduciary Funds .....	22
Statement of Changes in Fiduciary Net Position - Fiduciary Funds.....	23
Notes to the Basic Financial Statements.....	25 - 58
Required Supplementary Information:	
Schedule of the District’s Proportionate Share of the Net Pension Liability:	
School Employees Retirement System (SERS) of Ohio .....	60
State Teachers Retirement System (STRS) of Ohio .....	61
Schedule of District Contributions:	
School Employees Retirement System (SERS) of Ohio .....	62 - 63
State Teachers Retirement System (STRS) of Ohio .....	64 - 65
Notes to the Required Supplementary Information .....	66
Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i> .....	67 - 68

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**Julian & Grube, Inc.**  
*Serving Ohio Local Governments*

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Independent Auditor's Report

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

To the Board of Education:

***Report on the Financial Statements***

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

***Management's Responsibility for the Financial Statements***

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

***Auditor's Responsibility***

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

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

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

***Opinion***

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

***Other Matters***

*Required Supplementary Information*

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

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2016, on our consideration of the Margareta Local School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Margareta Local School District's internal control over financial reporting and compliance.



Julian & Grube, Inc.  
December 20, 2016



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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

The management's discussion and analysis of Margarett Local School District's ("the District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2016. 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 2016 are as follows:

- Net position of governmental activities increased \$541,135 which represents a 5.50% increase from 2015.
- General revenues accounted for \$12,384,816 in revenue or 75.36% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$4,049,488 or 24.64% of total revenues of \$16,434,304.
- The District had \$15,893,169 in expenses related to governmental activities; only \$4,049,488 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 \$12,384,816 were adequate to provide for these programs.
- The District's only major governmental fund is the general fund. The general fund had \$15,121,078 in revenues and \$14,624,864 in expenditures and other financing uses. During fiscal year 2016, the general fund's fund balance increased from \$2,024,790 to \$2,520,910.

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

**Reporting the District as a Whole**

***Statement of Net Position 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 2016?" The statement of net position and the statement of activities answer this question. These statements include *all assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

These two statements report the District's *net position* and changes in that position. This change in net position 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 position 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 fund is the general fund.

***Governmental Funds***

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

***Reporting the District's Fiduciary Responsibilities***

The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private-purpose trust fund. The District also acts in a trustee capacity as an agent for individuals. These activities are reported in an agency fund. All of the District's fiduciary activities are reported in separate statements of fiduciary net position and changes in fiduciary net position. 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.

***Required Supplementary Information***

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the District's net pension liability.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

**The District as a Whole**

The statement of net position provides the perspective of the District as a whole. The table below provides a summary of the District's net position at June 30, 2016 and June 30, 2015.

	<b>Net Position</b>	
	Governmental Activities 2016	Governmental Activities 2015
<b><u>Assets</u></b>		
Current and other assets	\$ 9,108,893	\$ 8,968,270
Capital assets, net	<u>7,336,266</u>	<u>5,594,551</u>
Total assets	<u>16,445,159</u>	<u>14,562,821</u>
<b><u>Deferred Outflows of Resources</u></b>		
Pension	<u>2,066,727</u>	<u>1,152,392</u>
Total deferred outflows of resources	<u>2,066,727</u>	<u>1,152,392</u>
<b><u>Liabilities</u></b>		
Current liabilities	1,471,063	1,422,448
Long-term liabilities:		
Due within one year	498,497	229,244
Due in more than one year:		
Net pension liability	17,749,275	15,273,953
Other amounts	<u>3,931,808</u>	<u>2,600,164</u>
Total liabilities	<u>23,650,643</u>	<u>19,525,809</u>
<b><u>Deferred Inflows of Resources</u></b>		
Property taxes levied for next year	4,735,135	4,922,198
Pensions	<u>1,061,873</u>	<u>2,744,106</u>
Total deferred inflows of resources	<u>5,797,008</u>	<u>7,666,304</u>
<b><u>Net Position</u></b>		
Net investment in capital assets	3,673,266	3,518,551
Restricted	208,897	269,576
Unrestricted (deficit)	<u>(14,817,928)</u>	<u>(15,265,027)</u>
Total net position (deficit)	<u>\$ (10,935,765)</u>	<u>\$ (11,476,900)</u>

During 2015, the District adopted GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27," which significantly revises accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the District's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability*. GASB 68 takes an earnings approach to pension accounting; however, the nature of Ohio's statewide pension systems and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

Under the new standards required by GASB 68, the net pension liability equals the District's proportionate share of each plan's collective:

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

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

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

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

As a result of implementing GASB 68, the District is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting.

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2016, the District's liabilities plus deferred inflows of resources exceeded assets plus deferred outflows of resources by \$10,935,765.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

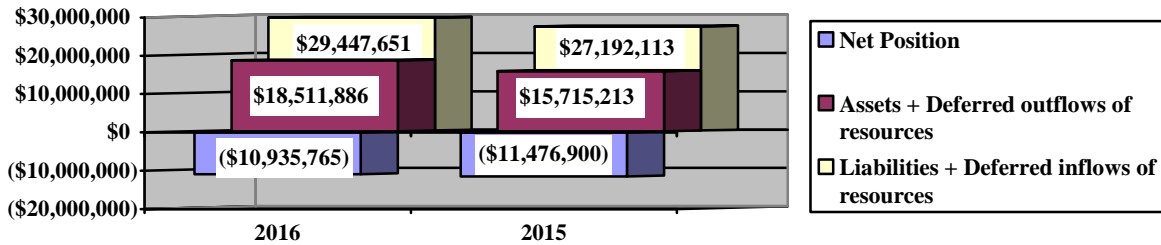
Overall, both assets and liabilities increased. The increase in assets is primarily due to a \$1.7 million building improvements project completed in fiscal year 2016 which is reflected in the District's capital assets. This also increased long-term liabilities as the District entered into a lease-purchase agreement to finance the project. In addition, the net pension liability increase by approximately \$2.5 million compared to the prior year.

At year-end, capital assets represented 44.61% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Net investment in capital assets at June 30, 2016, was \$3,673,266. 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 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 position, \$208,897, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net position is a deficit of \$14,817,928.

The graph below illustrates the governmental activities assets plus deferred outflows of resources, liabilities plus deferred inflows of resources, and net position at June 30, 2016 and June 30, 2015.

**Governmental Activities**



The table below shows the change in net position for fiscal years 2016 and 2015.

**Change in Net Position**

	Governmental Activities <u>2016</u>	Governmental Activities <u>2015</u>
<b><u>Revenues</u></b>		
Program revenues:		
Charges for services and sales	\$ 2,818,527	\$ 2,219,094
Operating grants and contributions	1,230,961	1,268,666
General revenues:		
Property taxes	6,080,975	5,819,694
Grants and entitlements	5,977,869	6,010,365
Investment earnings	5,572	3,064
Other	<u>320,400</u>	<u>306,205</u>
Total revenues	<u>\$ 16,434,304</u>	<u>\$ 15,627,088</u>

(Continued)

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

**Change in Net Position (Continued)**

	<u>Governmental Activities 2016</u>	<u>Governmental Activities 2015</u>
<b><u>Expenses</u></b>		
Program expenses:		
Instruction:		
Regular	\$ 5,029,641	\$ 4,803,859
Special	2,072,454	1,764,825
Vocational	325,782	295,443
Other	1,164,056	1,283,349
Support services:		
Pupil	857,716	793,385
Instructional staff	603,863	604,524
Board of education	316,734	167,952
Administration	1,070,128	1,067,527
Fiscal	478,602	427,583
Business	-	10
Operations and maintenance	1,505,950	1,337,183
Pupil transportation	1,061,461	1,144,946
Central	123,007	102,199
Operation of non-instructional services:		
Other non-instructional services	167,049	175,444
Food service operations	492,421	521,860
Extracurricular activities	514,078	530,157
Interest and fiscal charges	110,227	93,915
Total expenses	<u>15,893,169</u>	<u>15,114,161</u>
Change in net position	541,135	512,927
Net position (deficit) at beginning of year	<u>(11,476,900)</u>	<u>(11,989,827)</u>
Net position (deficit) at end of year	<u>\$ (10,935,765)</u>	<u>\$ (11,476,900)</u>

**Governmental Activities**

Net position of the District's governmental activities increased \$541,135. Total governmental expenses of \$15,893,169 were offset by program revenues of \$4,049,488 and general revenues of \$12,384,816. Program revenues supported 25.48% of the total governmental expenses.

Total revenues increased \$807,216 or 5.17%. The most significant increase in revenues was in charges for services and sales. This is mostly due to increases in rental income and contracted services revenue from the District-sponsored community school. The primary sources of revenue for governmental activities are derived from property taxes and grants and entitlements. These two revenue sources represent 73.38% of total governmental revenue. Real estate property is reappraised every six years.

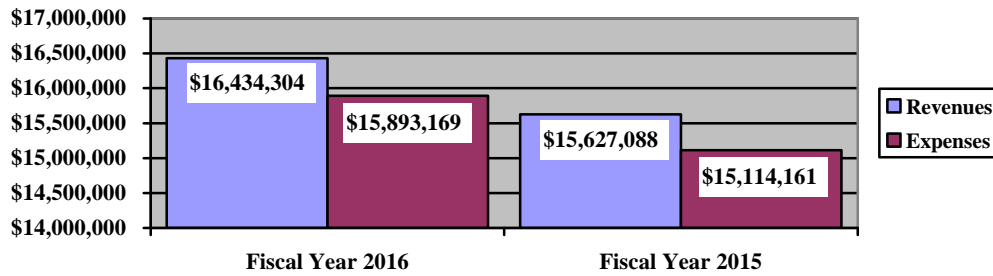
Total expenses also increased, up \$779,008 or 5.15%, which is mostly due to an increase in employee wages and benefits costs.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

The graph below presents the District's governmental activities revenue and expenses for fiscal year 2016 and 2015.

**Governmental Activities - Revenues and Expenses**



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

**Governmental Activities**

	Total Cost of Services 2016	Net Cost of Services 2016	Total Cost of Services 2015	Net Cost of Services 2015
<b>Program expenses</b>				
Instruction:				
Regular	\$ 5,029,641	\$ 3,350,720	\$ 4,803,859	\$ 3,687,843
Special	2,072,454	1,160,387	1,764,825	789,225
Vocational	325,782	293,274	295,443	272,964
Other	1,164,056	1,164,056	1,283,349	1,283,349
Support services:				
Pupil	857,716	857,716	793,385	757,071
Instructional staff	603,863	603,863	604,524	597,899
Board of education	316,734	316,734	167,952	167,952
Administration	1,070,128	1,070,128	1,067,527	1,067,527
Fiscal	478,602	478,602	427,583	427,583
Business	-	-	10	10
Operations and maintenance	1,505,950	1,051,293	1,337,183	1,104,837
Pupil transportation	1,061,461	994,463	1,144,946	1,083,846
Central	123,007	119,407	102,199	98,599
Operation of non-instructional services:				
Other non-instructional services	167,049	43,962	175,444	49,948
Food service operations	492,421	3,443	521,860	2,978
Extracurricular activities	514,078	225,406	530,157	140,855
Interest and fiscal charges	110,227	110,227	93,915	93,915
<b>Total expenses</b>	<u>\$ 15,893,169</u>	<u>\$ 11,843,681</u>	<u>\$ 15,114,161</u>	<u>\$ 11,626,401</u>

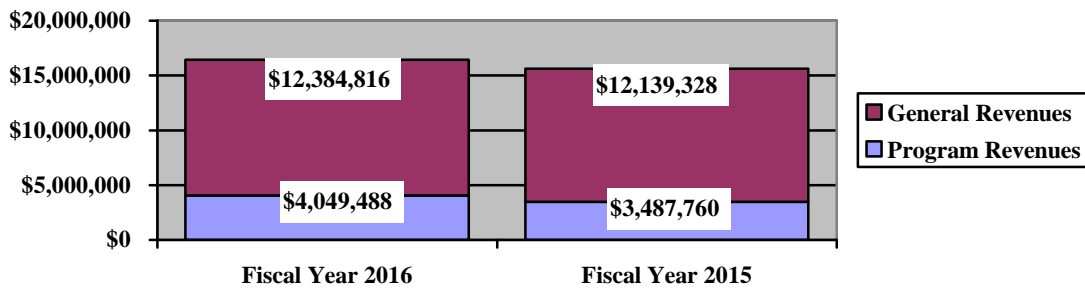
**MARGARETTA LOCAL SCHOOL DISTRICT  
ERIE COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

The dependence upon tax and other general revenues for governmental activities is apparent, 69.47% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 74.52%. 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.

The graph below presents the District's governmental activities revenue for fiscal years 2016 and 2015.

**Governmental Activities - General and Program Revenues**



**The District's Funds**

The District's governmental funds reported a combined fund balance of \$2,597,149, which is more than last year's balance of \$2,172,336. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2016 and June 30, 2015.

	Fund Balance <u>June 30, 2016</u>	Fund Balance <u>June 30, 2015</u>	Increase <u>(Decrease)</u>
General	\$ 2,520,910	\$ 2,024,790	\$ 496,120
Other Governmental	<u>76,239</u>	<u>147,546</u>	<u>(71,307)</u>
Total	<u>\$ 2,597,149</u>	<u>\$ 2,172,336</u>	<u>\$ 424,813</u>

**General Fund**

The District's general fund balance increased \$496,120 in fiscal year 2016. See the table on the following page for a more detailed look at the general fund's revenues and expenditures.



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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

The table that follows assists in illustrating the financial activities and change in fund balance of the general fund.

	<u>2016</u> <u>Amount</u>	<u>2015</u> <u>Amount</u>	<u>Change</u>	<u>Percentage</u> <u>Change</u>
<b><u>Revenues</u></b>				
Property taxes	\$ 5,990,314	\$ 5,686,405	\$ 303,909	5.34 %
Tuition	1,269,997	1,168,705	101,292	8.67 %
Earnings on investments	5,256	2,369	2,887	121.87 %
Rental income	420,301	224,012	196,289	87.62 %
Contract services	413,991	136,028	277,963	204.34 %
Other revenues	517,097	503,892	13,205	2.62 %
Intergovernmental	<u>6,504,122</u>	<u>6,435,818</u>	<u>68,304</u>	1.06 %
Total	<u>\$ 15,121,078</u>	<u>\$ 14,157,229</u>	<u>\$ 963,849</u>	6.81 %
<b><u>Expenditures</u></b>				
Instruction	\$ 8,071,118	\$ 7,868,020	\$ 203,098	2.58 %
Support services	5,909,260	5,613,913	295,347	5.26 %
Operation of non-instructional services	167,595	176,671	(9,076)	(5.14) %
Extracurricular activities	258,077	260,589	(2,512)	(0.96) %
Debt service	<u>218,814</u>	<u>203,268</u>	<u>15,546</u>	7.65 %
Total	<u>\$ 14,624,864</u>	<u>\$ 14,122,461</u>	<u>\$ 502,403</u>	3.56 %

Total revenues of the general fund increased \$963,849 or 6.81%. The most significant increases were in tuition and property taxes. Tuition revenue increased due to additional open enrollment from other public school districts in the area. Rental income increased as the District leased additional building space to the Townsend Community School. The increase in contract services is mostly related to additional instructional and support services provided to the community school. Property taxes revenue increased as a result of the rising assessed property values within the District.

Total expenditures of the general fund increased \$502,403 or 3.56%. The increase is primarily due to increase in salaries and fringe benefits. This is attributable in part to an increase in staffing levels, as well as an increase in medical insurance premiums.

***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.

For the general fund, original budgeted revenues and other financing sources of \$13,596,719 were increased to \$15,652,820 in the final budget. Property taxes revenue was increased \$298,044 in order to reflect increased collections throughout the year. Intergovernmental - state revenue was increased \$610,173 from the original to final budget in order to account for additional State Foundation funding. Advances in from other funds were increased \$750,000 to account for the repayment of advances throughout the year. Actual revenues and other financing sources for fiscal year 2016 were \$15,423,072. This represents a \$229,748 (1.47%) decrease from the final budget.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

General fund original appropriations (appropriated expenditures plus other financing uses) of \$14,760,695 were increased to \$16,021,145 in the final budget. This was mostly done in order to account for increased costs for employee wages and benefits, as well as an increase in advances to other funds. The actual budget basis expenditures and other financing uses for fiscal year 2016 totaled \$15,608,773, which is \$412,372 (2.57%) lower than the final budget. The variance between the final budget and actual is primarily a result of the District budgeting for a "worst case scenario" to account for unexpected increases in the actual costs of its programs.

**Capital Assets**

At the end of fiscal year 2016, the District had \$7,336,266 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, 2016 and June 30, 2015:

	<b>Capital Assets at June 30</b>	
	<b>(Net of Depreciation)</b>	
	<u>Governmental Activities</u>	
	<u>2016</u>	<u>2015</u>
Land	\$ 106,152	\$ 106,152
Land improvements	177,536	195,716
Buildings and improvements	6,191,181	4,471,549
Furniture and equipment	342,967	288,064
Vehicles	<u>518,430</u>	<u>533,070</u>
<b>Total</b>	<b><u>\$ 7,336,266</u></b>	<b><u>\$ 5,594,551</u></b>

Capital asset additions in fiscal year 2016 were \$2,095,977 and disposals, net of accumulated depreciation, totaled \$23,210. Depreciation expense for the year amounted to \$331,052.

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

***Debt Administration***

At June 30, 2016, the District had \$3,663,000 in lease-purchase obligations outstanding. Of this amount, \$443,000 is due within one year and \$3,220,000 is due in more than one year. The District entered into an additional lease-purchase agreement during fiscal year 2016 in the amount of \$1,700,000 in order to finance a building improvements project. Principal payments during the year amounted to \$113,000. The following table summarizes the debt outstanding at June 30, 2016 and June 30, 2015.

	<b>Outstanding Debt, at Year End</b>	
	<u>Governmental Activities 2016</u>	<u>Governmental Activities 2015</u>
Lease-purchase agreement	<u>\$ 3,663,000</u>	<u>\$ 2,076,000</u>
<b>Total</b>	<b><u>\$ 3,663,000</u></b>	<b><u>\$ 2,076,000</u></b>

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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

**Current Financial Related Activities**

In fiscal year 2016, the District retained a positive operating cash flow for the sixth consecutive fiscal year. The general fund's cash balance grew by \$154,865 during the fiscal year. The general fund cash balance grew to \$2,628,372 at the end of the fiscal year. On a cash basis, operating revenues grew by 4.10% when compared with fiscal year 2015 revenues. Local operating revenues grew by 22.59% from \$2,042,177 to \$2,503,508. The primary sources of the local operating revenues were open enrollment transfers from other school districts and contributions received from Townsend Community School. The contributions from Townsend included payments made toward the lease-purchase debt service agreement. Operating expenditures grew by 3.95% in fiscal year 2016. The increase can be attributed to increases in salaries of 4.42% and fringe benefits of 8.82%. The fringe benefit cost increase was driven by an increase in medical insurance premiums. Salaries and fringe benefit cost increases can be attributed to, in part, from an increase in special education staffing levels resulting from an increase in special education student enrollment at the Elementary level.

Townsend Community School continues to grow. Townsend has enrolled students from school districts across the state. Townsend enrollment at the end of the 2015-16 school year exceeded 900 students and approximately 185 students graduated in the 2015-16 school year. The District received and/or accrued \$76,605 for facility lease and building maintenance payments, \$193,087 in lease-purchase financing payments, \$69,529 in transportation services, and \$264,320 in support services in the 2015-16 school year. In addition, the District accrued \$177,554 for sponsorship fees, which is the statutory 3% of Townsend's State determined enrollment funding. In addition to the reimbursement of shared services and rent payments, Townsend's new Student Learning Center has a state-of-the-art computer lab and two state-of-the-art science labs that are being made available for the Margarett High School students to use at no additional cost.

State foundation unrestricted grant in aid funding grew by \$145,026 to a total of \$4,314,188. This was a 12.60% increase in State aid. The most financial significant portion of the state's budget as it pertains to the district is the treatment of the tangible personal property tax reimbursement funding source. In June 2015, the General Assembly adopted a new budget bill (House Bill 64) that restored the phase-out of the Tangible Personal Property Tax Loss Reimbursement that was to be totally phased out at a rate not exceed 1.75% operating revenue. The amount of reimbursement decreased by \$184,470 in fiscal year 2016 compared to fiscal year 2015. The net effect of the increase in State Foundation unrestricted grant funds and the loss in Tangible Personal Property Tax Loss Reimbursement was a decrease of \$39,444 resulting from House Bill 64.

**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.

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

STATEMENT OF NET POSITION  
JUNE 30, 2016

	<u><b>Governmental Activities</b></u>
<b>Assets:</b>	
Equity in pooled cash and cash equivalents . . .	\$ 2,854,399
Receivables:	
Property taxes . . . . .	6,112,368
Accrued interest . . . . .	1,011
Intergovernmental . . . . .	140,196
Materials and supplies inventory. . . . .	919
Capital assets:	
Nondepreciable capital assets . . . . .	106,152
Depreciable capital assets, net. . . . .	7,230,114
Capital assets, net . . . . .	<u>7,336,266</u>
Total assets. . . . .	<u>16,445,159</u>
 <b>Deferred outflows of resources:</b>	
Pension - STRS . . . . .	1,524,367
Pension - SERS . . . . .	542,360
Total deferred outflows of resources. . . . .	<u>2,066,727</u>
 <b>Liabilities:</b>	
Accounts payable. . . . .	140,416
Accrued wages and benefits payable . . . . .	1,064,306
Intergovernmental payable . . . . .	40,589
Pension and postemployment benefits payable . . . . .	214,607
Accrued interest payable . . . . .	11,145
Long-term liabilities:	
Due within one year . . . . .	498,497
Due in more than one year:	
Net pension liability. . . . .	17,749,275
Other amounts due in more than one year. . . . .	3,931,808
Total liabilities . . . . .	<u>23,650,643</u>
 <b>Deferred inflows of resources:</b>	
Property taxes levied for the next fiscal year . . . . .	4,735,135
Pension - STRS. . . . .	943,819
Pension - SERS. . . . .	118,054
Total deferred inflows of resources. . . . .	<u>5,797,008</u>
 <b>Net position:</b>	
Net investment in capital assets. . . . .	3,673,266
Restricted for:	
Capital projects . . . . .	76,946
Locally funded programs . . . . .	6,477
State funded programs. . . . .	3,044
Federally funded programs . . . . .	60,671
Student activities . . . . .	61,759
Unrestricted (deficit) . . . . .	(14,817,928)
Total net position (deficit) . . . . .	<u>\$ (10,935,765)</u>

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, 2016

	Program Revenues			Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
<b>Governmental activities:</b>				
Instruction:				
Regular . . . . .	\$ 5,029,641	\$ 1,634,968	\$ 43,953	\$ (3,350,720)
Special . . . . .	2,072,454	89,762	822,305	(1,160,387)
Vocational . . . . .	325,782	-	32,508	(293,274)
Other . . . . .	1,164,056	-	-	(1,164,056)
Support services:				
Pupil . . . . .	857,716	-	-	(857,716)
Instructional staff . . . . .	603,863	-	-	(603,863)
Board of education . . . . .	316,734	-	-	(316,734)
Administration . . . . .	1,070,128	-	-	(1,070,128)
Fiscal . . . . .	478,602	-	-	(478,602)
Operations and maintenance . . . . .	1,505,950	454,057	600	(1,051,293)
Pupil transportation . . . . .	1,061,461	-	66,998	(994,463)
Central . . . . .	123,007	-	3,600	(119,407)
Operation of non-instructional services:				
Other non-instructional services . . . . .	167,049	123,087	-	(43,962)
Food service operations . . . . .	492,421	227,981	260,997	(3,443)
Extracurricular activities . . . . .	514,078	288,672	-	(225,406)
Interest and fiscal charges . . . . .	110,227	-	-	(110,227)
Total governmental activities . . . . .	\$ 15,893,169	\$ 2,818,527	\$ 1,230,961	(11,843,681)
 <b>General revenues:</b>				
Property taxes levied for:				
General purposes . . . . .				5,921,250
Capital outlay . . . . .				159,725
Grants and entitlements not restricted to specific programs . . . . .				5,977,869
Investment earnings . . . . .				5,572
Miscellaneous . . . . .				320,400
Total general revenues . . . . .				12,384,816
Change in net position . . . . .				541,135
<b>Net position (deficit) at beginning of year . . . . .</b>				<b>(11,476,900)</b>
<b>Net position (deficit) at end of year . . . . .</b>				<b>\$ (10,935,765)</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2016

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>			
Equity in pooled cash and cash equivalents. . . . .	\$ 2,653,457	\$ 200,942	\$ 2,854,399
Receivables:			
Property taxes. . . . .	5,945,914	166,454	6,112,368
Accrued interest . . . . .	1,011	-	1,011
Interfund loans . . . . .	12,000	-	12,000
Intergovernmental. . . . .	78,762	61,434	140,196
Materials and supplies inventory . . . . .	-	919	919
Total assets . . . . .	<u>\$ 8,691,144</u>	<u>\$ 429,749</u>	<u>\$ 9,120,893</u>
<b>Liabilities:</b>			
Accounts payable . . . . .	\$ 95,991	\$ 44,425	\$ 140,416
Accrued wages and benefits payable . . . . .	983,260	81,046	1,064,306
Compensated absences payable . . . . .	1,356	-	1,356
Intergovernmental payable . . . . .	39,600	989	40,589
Pension and postemployment benefits payable . . . . .	196,219	18,388	214,607
Interfund loans payable . . . . .	-	12,000	12,000
Total liabilities. . . . .	<u>1,316,426</u>	<u>156,848</u>	<u>1,473,274</u>
<b>Deferred inflows of resources:</b>			
Property taxes levied for the next fiscal year. . . . .	4,606,581	128,554	4,735,135
Delinquent property tax revenue not available. . . . .	237,575	6,674	244,249
Intergovernmental revenue not available. . . . .	8,641	61,434	70,075
Accrued interest not available . . . . .	1,011	-	1,011
Total deferred inflows of resources . . . . .	<u>4,853,808</u>	<u>196,662</u>	<u>5,050,470</u>
<b>Fund balances:</b>			
Nonspendable:			
Materials and supplies inventory. . . . .	-	919	919
Restricted:			
Capital improvements . . . . .	-	76,946	76,946
Special education . . . . .	-	8,048	8,048
Other purposes. . . . .	-	18,726	18,726
Extracurricular activities. . . . .	-	61,759	61,759
Assigned:			
Student instruction . . . . .	37,757	-	37,757
Student and staff support. . . . .	263,956	-	263,956
Subsequent year's appropriations . . . . .	339,945	-	339,945
Unassigned (deficit) . . . . .	1,879,252	(90,159)	1,789,093
Total fund balances . . . . .	<u>2,520,910</u>	<u>76,239</u>	<u>2,597,149</u>
Total liabilities, deferred inflows of resources and fund balances . . . . .	<u>\$ 8,691,144</u>	<u>\$ 429,749</u>	<u>\$ 9,120,893</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET POSITION OF GOVERNMENTAL ACTIVITIES  
JUNE 30, 2016

<b>Total governmental fund balances</b>	\$	2,597,149
<i>Amounts reported for governmental activities on the statement of net position are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		7,336,266
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred inflows in the funds.		
Property taxes receivable	\$ 244,249	
Accrued interest receivable	1,011	
Intergovernmental receivable	70,075	
Total	315,335	315,335
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.		(11,145)
The net pension liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in governmental funds:		
Deferred outflows of resources - pension	2,066,727	
Deferred inflows of resources - pension	(1,061,873)	
Net pension liability	(17,749,275)	
Total	(16,744,421)	(16,744,421)
Long-term liabilities, including lease-purchases, are not due and payable in the current period and therefore are not reported in the funds.		
Lease-purchase obligations	(3,663,000)	
Compensated absences	(765,949)	
Total	(4,428,949)	(4,428,949)
<b>Net position (deficit) of governmental activities</b>	<b>\$</b>	<b>(10,935,765)</b>

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, 2016

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>			
From local sources:			
Property taxes . . . . .	\$ 5,990,314	\$ 161,785	\$ 6,152,099
Tuition. . . . .	1,269,997	-	1,269,997
Earnings on investments . . . . .	5,256	-	5,256
Charges for services . . . . .	-	227,981	227,981
Extracurricular. . . . .	123,087	255,804	378,891
Classroom materials and fees . . . . .	73,610	-	73,610
Rental income . . . . .	420,301	-	420,301
Contract services. . . . .	413,991	-	413,991
Other local revenues . . . . .	320,400	45,962	366,362
Intergovernmental - state . . . . .	6,468,681	33,039	6,501,720
Intergovernmental - federal . . . . .	35,441	674,376	709,817
Total revenues . . . . .	<u>15,121,078</u>	<u>1,398,947</u>	<u>16,520,025</u>
<b>Expenditures:</b>			
Current:			
Instruction:			
Regular. . . . .	4,867,670	121,898	4,989,568
Special . . . . .	1,712,327	376,815	2,089,142
Vocational . . . . .	327,065	-	327,065
Other . . . . .	1,164,056	-	1,164,056
Support services:			
Pupil . . . . .	861,524	-	861,524
Instructional staff . . . . .	578,977	1	578,978
Board of education . . . . .	277,218	39,516	316,734
Administration . . . . .	1,100,817	-	1,100,817
Fiscal . . . . .	446,119	3,043	449,162
Operations and maintenance . . . . .	1,474,187	12,170	1,486,357
Pupil transportation . . . . .	1,050,261	-	1,050,261
Central . . . . .	120,157	3,600	123,757
Operation of non-instructional services:			
Other non-instructional services. . . . .	167,595	-	167,595
Food service operations. . . . .	-	484,153	484,153
Extracurricular activities . . . . .	258,077	266,746	524,823
Facilities acquisition and construction. . . . .	-	1,853,126	1,853,126
Debt service:			
Principal retirement. . . . .	113,000	-	113,000
Interest and fiscal charges . . . . .	105,814	-	105,814
Total expenditures . . . . .	<u>14,624,864</u>	<u>3,161,068</u>	<u>17,785,932</u>
Excess (deficiency) of revenues over (under) expenditures. . . . .	<u>496,214</u>	<u>(1,762,121)</u>	<u>(1,265,907)</u>
<b>Other financing sources (uses):</b>			
Transfers in. . . . .	-	94	94
Transfers (out) . . . . .	(94)	-	(94)
Capital lease transaction . . . . .	-	1,700,000	1,700,000
Total other financing sources (uses) . . . . .	<u>(94)</u>	<u>1,700,094</u>	<u>1,700,000</u>
Net change in fund balances . . . . .	496,120	(62,027)	434,093
<b>Fund balances at beginning of year . . . . .</b>	<b>2,024,790</b>	<b>147,546</b>	<b>2,172,336</b>
<b>Decrease in reserve for inventory. . . . .</b>	<b>-</b>	<b>(9,280)</b>	<b>(9,280)</b>
<b>Fund balances at end of year . . . . .</b>	<u><u>\$ 2,520,910</u></u>	<u><u>\$ 76,239</u></u>	<u><u>\$ 2,597,149</u></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, 2016

<b>Net change in fund balances - total governmental funds</b>	\$	434,093
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.		
Capital asset additions	\$ 2,095,977	
Current year depreciation	(331,052)	
Total		1,764,925
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net position.		
		(23,210)
Governmental funds report expenditures for inventory when purchased. However, in the statement of activities, they are reported as an expense when consumed.		
		(9,280)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Property taxes	(71,124)	
Earnings on investments	316	
Intergovernmental	(14,913)	
Total		(85,721)
Repayment of lease-purchase principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net position.		
		113,000
The capital lease transaction is recorded as an other financing source in governmental funds; however, it increases liabilities on the statement of net position.		
		(1,700,000)
In the statement of activities, interest is accrued, whereas in governmental funds, an interest expenditure is reported when due. The following items resulted in additional interest being reported in the statement of activities:		
		(4,413)
Contractually required contributions are reported as expenditures in governmental funds; however, the statement of activities reports these amounts as deferred outflows.		
		1,067,278
Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities.		
		(946,032)
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.		
		(69,505)
<b>Change in net position of governmental activities</b>	\$	541,135

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, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u>	<b>Variance with Final Budget Positive (Negative)</b>
	<u>Original</u>	<u>Final</u>		<u>Actual</u>
<b>Revenues:</b>				
From local sources:				
Property taxes . . . . .	\$ 5,428,321	\$ 5,726,365	\$ 5,726,366	\$ 1
Tuition . . . . .	1,148,495	1,363,000	1,269,997	(93,003)
Earnings on investments . . . . .	2,895	4,400	5,282	882
Classroom materials and fees . . . . .	70,454	74,500	73,610	(890)
Rental income . . . . .	96,898	378,900	420,301	41,401
Contract services . . . . .	534,195	399,327	413,991	14,664
Other local revenues . . . . .	294,652	318,300	320,400	2,100
Intergovernmental - state . . . . .	5,988,055	6,598,228	6,403,720	(194,508)
Intergovernmental - federal . . . . .	28,954	36,000	35,441	(559)
Total revenues . . . . .	<u>13,592,919</u>	<u>14,899,020</u>	<u>14,669,108</u>	<u>(229,912)</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular . . . . .	5,005,349	5,022,349	4,949,917	72,432
Special . . . . .	1,620,266	1,740,266	1,723,516	16,750
Vocational . . . . .	361,994	363,994	330,769	33,225
Other . . . . .	1,050,000	1,165,500	1,164,056	1,444
Support services:				
Pupil . . . . .	840,752	880,252	873,066	7,186
Instructional staff . . . . .	622,103	642,103	583,418	58,685
Board of education . . . . .	315,424	334,424	330,656	3,768
Administration . . . . .	1,056,796	1,113,296	1,102,783	10,513
Fiscal . . . . .	460,572	462,572	455,654	6,918
Operations and maintenance . . . . .	1,516,838	1,584,838	1,536,578	48,260
Pupil transportation . . . . .	1,261,657	1,266,657	1,154,648	112,009
Central . . . . .	120,648	135,148	117,365	17,783
Other non-instructional services . . . . .	40,384	42,984	42,091	893
Extracurricular activities . . . . .	275,550	280,400	263,348	17,052
Debt service:				
Principal . . . . .	113,000	113,000	113,000	-
Interest and fiscal charges . . . . .	89,362	106,362	105,814	548
Total expenditures . . . . .	<u>14,750,695</u>	<u>15,254,145</u>	<u>14,846,679</u>	<u>407,466</u>
Excess of expenditures over revenues . . . . .	<u>(1,157,776)</u>	<u>(355,125)</u>	<u>(177,571)</u>	<u>177,554</u>
<b>Other financing sources (uses):</b>				
Refund of prior year's expenditures . . . . .	-	-	164	164
Transfers (out) . . . . .	(5,000)	(5,000)	(94)	4,906
Advances in . . . . .	3,800	753,800	753,800	-
Advances (out) . . . . .	(5,000)	(762,000)	(762,000)	-
Total other financing sources (uses) . . . . .	<u>(6,200)</u>	<u>(13,200)</u>	<u>(8,130)</u>	<u>5,070</u>
Net change in fund balance . . . . .	(1,163,976)	(368,325)	(185,701)	182,624
<b>Fund balance at beginning of year . . . . .</b>	<b>2,231,982</b>	<b>2,231,982</b>	<b>2,231,982</b>	<b>-</b>
<b>Prior year encumbrances appropriated . . . . .</b>	<b>241,526</b>	<b>241,526</b>	<b>241,526</b>	<b>-</b>
<b>Fund balance at end of year . . . . .</b>	<b>\$ 1,309,532</b>	<b>\$ 2,105,183</b>	<b>\$ 2,287,807</b>	<b>\$ 182,624</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
JUNE 30, 2016

	<b>Private-Purpose Trust</b>	
	<b>Scholarship</b>	<b>Agency</b>
<b>Assets:</b>		
Equity in pooled cash and cash equivalents . . . . .	\$ 283,898	\$ 53,171
<b>Receivables:</b>		
Accrued interest. . . . .	167	-
Total assets. . . . .	284,065	\$ 53,171
<b>Liabilities:</b>		
Accounts payable. . . . .	-	\$ 7,431
Due to students. . . . .	-	45,740
Total liabilities . . . . .	-	\$ 53,171
<b>Net position:</b>		
Held in trust for scholarships. . . . .	284,065	
Total net position. . . . .	\$ 284,065	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	<b>Private-Purpose Trust</b>
	<b>Scholarship</b>
<b>Additions:</b>	
Interest . . . . .	\$ 619
Gifts and contributions. . . . .	23,244
Total additions . . . . .	23,863
<b>Deductions:</b>	
Scholarships awarded . . . . .	31,606
Change in net position . . . . .	(7,743)
<b>Net position at beginning of year. . . . .</b>	<b>291,808</b>
<b>Net position at end of year . . . . .</b>	<b>\$ 284,065</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

**NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT**

The Margarettta Local School District (“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 currently operates 2 elementary schools and 1 high school. It employs 93 non-certified employees and 97 certified (including administrative) employees to provide services to approximately 1,082 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’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” and GASB Statement No. 61, “The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34”. 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, 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 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).

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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

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. Financial information can be obtained by contacting the North Point Educational Service Center, which serves as fiscal agent, at 1210 East Bogart Road, 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 districts. The NOECA Board of Directors consists of two representatives from each county in which participating school districts are located, the chairman of each of the operating committees, and a representative from the fiscal agent. Financial information can be obtained from Matt Bauer, who serves as Controller, 1210 East Bogart Road, Sandusky, Ohio 44870.

*PUBLIC ENTITY RISK POOLS*

Workers' Compensation Group Rating Program

The District participates in the Ohio School Boards Association (OSBA) Workers' Compensation Group Rating Program (GRP). The GRP is sponsored by OSBA and administered by CompManagement, Inc. The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The District pays a fee to the GRP 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 persons. 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.



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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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

Huron-Erie School Employees Insurance Association

The Huron-Erie School Employees Insurance Association (Association) is a public entity risk pool comprised of several 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 1210 East Bogart Road, 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 plus deferred outflows of resources and liabilities plus deferred inflows of resources is reported as fund balance. The following is the District's major governmental fund:

*General fund* - The general fund is used to account for and report all financial resources not accounted for and reported in another fund. The general fund balance is available for any purpose provided it is expended or transferred according to the general laws of Ohio.

Other governmental funds of the District are used to account for (a) financial resources that are restricted, committed, or assigned to expenditures for capital outlays including the acquisition or construction of capital facilities and other capital assets and (b) specific revenue sources that are restricted or committed to an expenditure for specified purposes other than debt service or capital projects.

*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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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

*FIDUCIARY FUNDS*

Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the 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 statement of net position and the statement of activities display information about the District as a whole. These statements included the financial activities of the primary government, except for fiduciary funds.

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, deferred outflows of resources, liabilities, and deferred inflows of resources associated with the operation of the District are included on the statement of net position.

*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. The major fund is presented in a separate column, and all nonmajor funds are aggregated into one column. Fiduciary funds are reported by fund type.

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets, current deferred outflows of resources, current liabilities, and current deferred inflows of resources generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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

**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.

Deferred Outflows of Resources and Deferred Inflows of Resources - In addition to assets, the government-wide statement of net position will report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. See Note 14 for deferred outflows of resources related the District's net pension liability.

In addition to liabilities, both the government-wide statement of net position and the governmental fund financial statements report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the District, deferred inflows of resources include property taxes and unavailable revenue. Property taxes a represent amounts for which there is an enforceable legal claim as of June 30, 2016, but which were levied to finance fiscal year 2017 operations. These amounts have been recorded as a deferred inflow of resources on both the government-wide statement of net position and the governmental fund financial statements.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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

Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the District unavailable revenue includes, but is not limited to, delinquent property taxes and intergovernmental grants. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available.

See Note 14 for deferred inflows of resources related to the District's net pension liability. This deferred inflow of resources is only reported on the government-wide statement of net position.

*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 an existing (or increased) tax rate. 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, 2016

**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 Commission's 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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

**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 2016, 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 2016. 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, 2016.

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 2016 amounted to \$5,256, which includes \$964 assigned from other District funds.

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

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

**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. 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 nonspendable fund balance in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of net current assets.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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

**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 position, but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and 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	5 - 25 years
Buildings and improvements	10 - 50 years
Furniture and equipment	5 - 20 years
Vehicles	8 years

**I. Interfund Balances**

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

**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  
ERIE COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

**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 and lease purchase payments 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**

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

*Nonspendable* - The nonspendable fund balance classification includes amounts that cannot be spent because they are not in spendable form or are legally required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of loans receivable.



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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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

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

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

*Assigned* - Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted nor committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of the District Board of Education, which includes giving the Treasurer the authority to constrain monies for intended purposes.

*Unassigned* - Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is only used to report a deficit fund balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

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

**M. Net Position**

Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows. The net position component "net investment in capital assets," consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt also should be included in this component of net position. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the District 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 position is available.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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

**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. Pensions**

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

**Q. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2016.

**R. Fair Market Value**

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE**

**A. Change in Accounting Principles**

For fiscal year 2016, the District has implemented GASB Statement No. 72, "Fair Value Measurement and Application", GASB Statement No. 73 "Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68", GASB Statement No. 76, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments", and GASB Statement No. 79, "Certain External Investment Pools and Pool Participants".

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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

GASB Statement No. 72 addresses accounting and financial reporting issues related to fair value measurement. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The implementation of GASB Statement No. 72 did not have an effect on the financial statements of the District.

GASB Statement No. 73 improves the usefulness of information about pensions included in the general purposes external financial reports of state and local governments for making decisions and assessing accountability. The implementation of GASB Statement No. 73 did not have an effect on the financial statements of the District.

GASB Statement No. 76 identifies - in the context of the current governmental financial reporting environment - the hierarchy of generally accepted accounting principles (GAAP). This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The implementation of GASB Statement No. 76 did not have an effect on the financial statements of the District.

GASB Statement No. 79 establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. The implementation of GASB Statement No. 79 did not have an effect on the financial statements of the District.

**B. Deficit Fund Balances**

Fund balances at June 30, 2016 included the following individual fund deficits:

<u>Nonmajor funds</u>	<u>Deficit</u>
Food service	\$ 18,926
IDEA Part B	33,546
Title I	23,996
Improving teacher quality	7,456
Building	5,316

The general fund is liable for any deficit in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances resulted from adjustments for accrued liabilities.

**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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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

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);
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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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

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

**A. Deposits with Financial Institutions**

At June 30, 2016, the carrying amount of all District deposits, including \$1,280,751 in nonnegotiable certificates of deposit, was \$2,597,346. Based on the criteria described in GASB Statement No. 40, “Deposits and Investment Risk Disclosures”, as of June 30, 2016, \$1,714,762 of the District’s bank balance of \$3,045,800 was exposed to custodial risk as discussed below, while \$1,331,038 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 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.

**B. Investments**

As of June 30, 2016, 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	<u>\$ 594,122</u>	<u>\$ 594,122</u>

*Interest Rate Risk:* As a means of limiting its exposure to fair value losses arising from 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 an AAAM money market rating. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The District’s investment policy does not specifically address credit risk beyond requiring the District to only invest in securities authorized by State statute.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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

*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, 2016:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
STAR Ohio	\$ 594,122	100.00

**C. Reconciliation of Cash and Investments to the Statement of Net Position**

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 position as of June 30, 2016:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 2,597,346
Investments	<u>594,122</u>
Total	<u>\$ 3,191,468</u>
 <u>Cash and investments per statement of net position</u>	
Governmental activities	\$ 2,854,399
Private purpose funds	283,898
Agency fund	<u>53,171</u>
Total	<u>\$ 3,191,468</u>

**NOTE 5 - INTERFUND TRANSACTIONS**

- A. Interfund transfers for the year ended June 30, 2016, consisted of the following, as reported on the fund financial statements:

<u>Transfers to the nonmajor governmental funds from:</u>	<u>Amount</u>
General fund	<u>\$ 94</u>

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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

Interfund transfers between governmental funds are eliminated for reporting in the statement of activities. All transfers were made in compliance with Ohio Revised Code Sections 5705.14, 5705.15 and 5705.16.

- B.** Interfund balances at June 30, 2016 as reported on the fund statements, consist of the following individual interfund loans receivable and payable:

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
Nonmajor governmental	General	<u>\$ 12,000</u>

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

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2016 are reported on the statement of net position.

**NOTE 6 - PROPERTY TAXES**

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

Property taxes include amounts levied against all real property and public utility property. Real property tax revenues received in calendar year 2016 represent the collection of calendar year 2015 taxes. Real property taxes received in calendar year 2016 were levied after April 1, 2015, on the assessed values as of January 1, 2015, 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 2016 represent the collection of calendar year 2015 taxes. Public utility real and personal property taxes received in calendar year 2016 became a lien on December 31, 2014, were levied after April 1, 2015, 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.

The District receives property taxes from Erie County and Sandusky County. The County Auditors periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the Counties by June 30, 2016, are available to finance fiscal year 2016 operations. The amount available as an advance at June 30, 2016 was \$1,101,758 in the general fund and \$31,226 in the permanent improvement fund (a nonmajor governmental fund). This amount is recorded as revenue. The amount available for advance at June 30, 2015 was \$837,810 in the general fund and \$24,162 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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

Accrued property taxes receivable includes real property, public utility property and delinquent tangible personal property taxes which are measurable as of June 30, 2016 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred inflows.

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 reported as a deferred inflow.

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

	2015 Second Half Collections		2016 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 164,034,610	94.63	\$ 179,464,650	94.92
Public utility personal	<u>9,316,970</u>	<u>5.37</u>	<u>9,607,100</u>	<u>5.08</u>
<b>Total</b>	<b><u>\$ 173,351,580</u></b>	<b><u>100.00</u></b>	<b><u>\$ 189,071,750</u></b>	<b><u>100.00</u></b>
Tax rate per \$1,000 of assessed valuation	\$63.76		\$63.20	

**NOTE 7 - RECEIVABLES**

Receivables at June 30, 2016 consisted of property taxes, 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 position follows:

**Governmental activities:**

Property taxes	\$ 6,112,368
Accrued interest	1,011
Intergovernmental	<u>140,196</u>
<b>Total</b>	<b><u>\$ 6,253,575</u></b>

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, 2016

**NOTE 8 - CAPITAL ASSETS**

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

<b>Governmental activities:</b>	Balance <u>06/30/15</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>06/30/16</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 106,152	\$ -	\$ -	\$ 106,152
Total capital assets, non being depreciated	<u>106,152</u>	<u>-</u>	<u>-</u>	<u>106,152</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	1,336,395	-	-	1,336,395
Building and improvements	9,135,740	1,915,166	-	11,050,906
Furniture and equipment	873,163	111,283	(17,600)	966,846
Vehicles	<u>1,526,926</u>	<u>69,528</u>	<u>(67,106)</u>	<u>1,529,348</u>
Total capital assets, being depreciated	<u>12,872,224</u>	<u>2,095,977</u>	<u>(84,706)</u>	<u>14,883,495</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(1,140,679)	(18,180)	-	(1,158,859)
Building and improvements	(4,664,191)	(195,534)	-	(4,859,725)
Furniture and equipment	(585,099)	(39,881)	1,101	(623,879)
Vehicles	<u>(993,856)</u>	<u>(77,457)</u>	<u>60,395</u>	<u>(1,010,918)</u>
Total accumulated depreciation	<u>(7,383,825)</u>	<u>(331,052)</u>	<u>61,496</u>	<u>(7,653,381)</u>
Governmental activities capital assets, net	<u>\$ 5,594,551</u>	<u>\$ 1,764,925</u>	<u>\$ (23,210)</u>	<u>\$ 7,336,266</u>

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 146,454
Special	864
<u>Support services:</u>	
Administration	15,239
Operations and maintenance	40,567
Pupil transportation	85,999
<u>Operation of non-instructional services:</u>	
Extracurricular	35,130
Food service operations	<u>6,799</u>
Total depreciation expense	<u>\$ 331,052</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

**NOTE 9 - LEASE-PURCHASE AGREEMENTS**

During a prior fiscal year, the District entered into a lease-purchase agreement with Columbus Regional Airport Authority to finance the construction of 4 classrooms, a gymnasium, computer lab, and a library to the Bogart Elementary School Building and improvements to the central office located in that building. During fiscal year 2016, the District entered into a lease-purchase to finance building improvements at the Townsend Learning Center. These leases meet the criteria of a capital lease as defined by GAAP which defines a lease-purchase generally as one which transfers benefits and risks of ownership to the lessee.

Capital assets acquired by the lease-purchase agreements have been capitalized in the amount of \$4,464,450. Accumulated depreciation at June 30, 2016 was \$442,829 leaving a book value of \$4,021,621. Lease-purchase payments have been reflected as debt service expenditures in the general fund. There was \$113,000 in principal payments in fiscal year 2016.

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, 2016.

Fiscal Year Ending June 30,	Total
2017	\$ 574,955
2018	568,004
2019	566,611
2020	565,568
2021	557,957
2022 - 2026	978,570
2027 - 2028	578,449
Total minimum lease payments	4,390,114
Less: amount representing interest	(727,114)
Present value of minimum lease payments	\$ 3,663,000

**NOTE 10 - LONG-TERM OBLIGATIONS**

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

	Balance Outstanding 06/30/15	Additions	Reductions	Balance Outstanding 06/30/16	Amounts Due in One Year
Lease-purchase agreements	\$ 2,076,000	\$ 1,700,000	\$ (113,000)	\$ 3,663,000	\$ 443,000
Net pension liability	15,273,953	2,475,322	-	17,749,275	-
Compensated absences	753,408	101,659	(87,762)	767,305	55,497
Total governmental activities	\$ 18,103,361	\$ 4,276,981	\$ (200,762)	\$ 22,179,580	\$ 498,497

Lease-purchase Agreements: See Note 9 for detail on the District's lease-purchase agreements.

Net Pension Liability: See Note 14 for details.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

**NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)**

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, 2016, are a voted debt margin of \$17,016,458 and an unvoted debt margin of \$189,072.

**NOTE 11 - OPERATING LEASE - LESSOR DISCLOSURE**

The District is the lessor of property located in Castalia, Ohio and Vickery, Ohio. The property located in Castalia is within the District's high school footprint and includes office space in the high school and a classroom created in an outbuilding. The property in Vickery is the former Townsend Elementary building. The lease is between the District and Governing Authority of the Townsend Community School. The term of the lease is from August 1, 2015 through July 31, 2016. However, the lease for the property in Vickery, the former Townsend Elementary, was terminated as of December 31, 2015. Townsend Community School completed the construction of a learning center on the land adjacent to the Margaretta High School. The lease payment was \$1,500 per month for the Castalia property and \$3,750 per month for the Vickery property for the first five months of the lease. Included in the lease agreement is a provision to reimburse the District originally \$48,000 per year for maintenance of the leased area, which was amended to \$15,000 after December 31, 2015. The Townsend Learning Center opened in fiscal year 2016 and will have an impact on the leased areas in the short-term and long-term.

**NOTE 12 - 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-one 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 and SERS.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

**NOTE 12 - OTHER EMPLOYEE BENEFITS - (Continued)**

**B. Insurance Benefits**

The District provides life insurance and accidental death and dismemberment insurance in the amount of \$150,000 to the Superintendent, \$75,000 to Administrators, Supervisors and Treasurer, \$50,000 to certified staff members and \$10,000 to \$20,000 to all other classified employees.

**NOTE 13 - 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 2016 the District contracted with SORSA to provide insurance coverage in the following amounts:

<u>Limits of Coverage</u>	<u>Carrier</u>	<u>Coverage</u>
General liability:		
Each occurrence	Indiana Insurance	\$ 5,000,000
Aggregate		15,000,000
Fleet:		
Comprehensive Collision	Indiana Insurance	\$12,000,000
Umbrella liability	Indiana Insurance	\$12,000,000
Building and contents	Indiana Insurance	\$50,220,342

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

**B. Huron-Erie School Employees Insurance Association**

The District has contracted with the Huron-Erie School Employees Insurance Association (Association) to provide medical/surgical, prescription drug and dental insurance benefits for its employees and their covered dependents. The Association is a shared risk pool comprised of several 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

**NOTE 13 - RISK MANAGEMENT - (Continued)**

Post-employment health care is provided to plan participants or their beneficiaries through the respective retirement systems discussed in Note 15. As such, no funding provisions are required by the District.

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

For fiscal year 2016, the District participated in the Ohio School Boards Association Workers' Compensation Group Retrospective Plan (the "Plan"), an insurance purchasing pool (Note 2.A.). The intent of the Plan is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the Plan. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the Plan. Each participant pays its workers' compensation premium to the state based on the rate for the Plan rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the Plan.

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

**NOTE 14 - DEFINED BENEFIT PENSION PLANS**

***Net Pension Liability***

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

**NOTE 14 - DEFINED BENEFIT PENSION PLANS - (Continued)**

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

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

***Plan Description - School Employees Retirement System (SERS)***

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

Age and service requirements for retirement are as follows:

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

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

**NOTE 14 - DEFINED BENEFIT PENSION PLANS - (Continued)**

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

The District's contractually required contribution to SERS was \$328,467 for fiscal year 2016. Of this amount \$19,449 is reported as pension and postemployment benefits payable.

***Plan Description - State Teachers Retirement System (STRS)***

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

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 25 years of service, or 30 years of service regardless of age. Age and service requirements for retirement will increase effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five years of service on August 1, 2026.

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

**NOTE 14 - DEFINED BENEFIT PENSION PLANS - (Continued)**

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

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

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory maximum employee contribution rate was increased one percent July 1, 2014, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2015, plan members were required to contribute 13 percent of their annual covered salary. The District was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2016 contribution rates were equal to the statutory maximum rates.

The District's contractually required contribution to STRS was \$738,811 for fiscal year 2016. Of this amount, \$125,028 is reported as pension and postemployment benefits payable.

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

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

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportionate share of the net pension liability	\$ 4,271,995	\$ 13,477,280	\$ 17,749,275
Proportion of the net pension liability	0.07486720%	0.04876522%	
Pension expense	\$ 324,182	\$ 621,850	\$ 946,032

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



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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

**NOTE 14 - DEFINED BENEFIT PENSION PLANS - (Continued)**

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
<b>Deferred outflows of resources</b>			
Differences between expected and actual experience	\$ 67,636	\$ 613,069	\$ 680,705
Changes in proportionate share	146,257	172,487	318,744
District contributions subsequent to the measurement date	<u>328,467</u>	<u>738,811</u>	<u>1,067,278</u>
Total deferred outflows of resources	<u>\$ 542,360</u>	<u>\$ 1,524,367</u>	<u>\$ 2,066,727</u>
<b>Deferred inflows of resources</b>			
Net difference between projected and actual earnings on pension plan investments	<u>\$ 118,054</u>	<u>\$ 943,819</u>	<u>\$ 1,061,873</u>
Total deferred inflows of resources	<u>\$ 118,054</u>	<u>\$ 943,819</u>	<u>\$ 1,061,873</u>

\$1,067,278 reported as deferred outflows of resources related to pension resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Fiscal Year Ending June 30:			
2017	\$ 2,663	\$ (167,566)	\$ (164,903)
2018	2,663	(167,566)	(164,903)
2019	2,660	(167,569)	(164,909)
2020	<u>87,853</u>	<u>344,438</u>	<u>432,291</u>
Total	<u>\$ 95,839</u>	<u>\$ (158,263)</u>	<u>\$ (62,424)</u>

**Actuarial Assumptions - SERS**

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

**NOTE 14 - DEFINED BENEFIT PENSION PLANS - (Continued)**

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

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

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

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

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

**NOTE 14 - DEFINED BENEFIT PENSION PLANS - (Continued)**

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

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
District's proportionate share of the net pension liability	\$ 5,923,722	\$ 4,271,995	\$ 2,881,105

**Actuarial Assumptions - STRS**

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

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

Mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males' ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89 and not set back from age 90 and above.

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

The 10 year expected real rate of return on pension plan investments was determined by STRS' investment consultant by developing best estimates of expected future real rates of return for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized as follows:

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

**NOTE 14 - DEFINED BENEFIT PENSION PLANS - (Continued)**

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

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

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
District's proportionate share of the net pension liability	\$ 18,720,959	\$ 13,477,280	\$ 9,042,968

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

**NOTE 15 - POSTEMPLOYMENT BENEFITS**

**A. School Employees Retirement System**

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

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2016, none of the employer contribution was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2016, this amount was \$23,000. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2016, the District's surcharge obligation was \$38,845.

The District's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$38,845, \$50,092, and \$33,089, respectively. The full amount has been contributed for fiscal years 2016, 2015 and 2014.

**B. State Teachers Retirement System**

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

**NOTE 15 - POSTEMPLOYMENT BENEFITS - (Continued)**

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS 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. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal years 2016 and 2015, STRS did not allocate any employer contributions to post-employment health care. The District's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$0, \$0, and \$50,401 respectively. The full amount has been contributed for fiscal years 2016, 2015 and 2014.

**NOTE 16 - BUDGETARY BASIS OF ACCOUNTING**

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

The statement of revenue, expenditures and changes in fund balance - budget and actual (non-GAAP budgetary basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to assigned or committed fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis);
- (d) Advances-in and advances-out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis); and,
- (e) Some funds are included in the general fund (GAAP basis), but have separate legally adopted budgets (budget basis).

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

**NOTE 16 - BUDGETARY BASIS OF ACCOUNTING - (Continued)**

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	\$ (185,701)
Net adjustment for revenue accruals	328,883
Net adjustment for expenditure accruals	5,792
Net adjustment for other financing sources/(uses)	8,036
Funds budgeted elsewhere	(1,456)
Adjustment for encumbrances	340,566
GAAP basis	\$ 496,120

Certain funds that are legally budgeted in separate special revenue funds are considered part of the general fund on a GAAP basis. This includes the public school support fund.

**NOTE 17 - 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.

**C. Foundation Funding**

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

**NOTE 18 - SET-ASIDES**

The District is required by State law to annually set-aside certain general fund revenue amounts, as defined by statutory formula, for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at fiscal year-end. This amount must be carried forward to be used for the same purpose in future years. Expenditures exceeding the set-aside requirement may not be carried forward to the next fiscal year.

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

	<u>Capital Improvements</u>
Set-aside balance June 30, 2015	\$ -
Current year set-aside requirement	198,586
Current year qualifying expenditures	<u>(308,514)</u>
Total	<u>\$ (109,928)</u>
Balance carried forward to fiscal year 2017	<u>\$ -</u>
Set-aside balance June 30, 2016	<u>\$ -</u>

**NOTE 19 - OTHER COMMITMENTS**

The District utilizes encumbrance accounting as part of its budgetary controls. Encumbrances outstanding at year end may be reported as part of restricted, committed, or assigned classifications of fund balance. At year end, the District's commitments for encumbrances in the governmental funds were as follows:

	<u>Year-End Encumbrances</u>
<u>Fund</u>	
General	\$ 276,689
Nonmajor governmental funds	<u>6,957</u>
Total	<u>\$ 283,646</u>



REQUIRED SUPPLEMENTARY INFORMATION

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

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF  
THE NET PENSION LIABILITY  
SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

LAST THREE FISCAL YEARS

	<u>2015</u>	<u>2014</u>	<u>2013</u>
District's proportion of the net pension liability	0.07486720%	0.07105400%	0.07105400%
District's proportionate share of the net pension liability	\$ 4,271,995	\$ 3,596,002	\$ 4,225,353
District's covered-employee payroll	\$ 2,253,892	\$ 2,064,690	\$ 2,019,790
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	189.54%	174.17%	209.20%
Plan fiduciary net position as a percentage of the total pension liability	69.16%	71.70%	65.52%

Note: Information prior to fiscal year 2013 was unavailable.

Amounts presented as of the District's measurement date which is the prior fiscal year end.

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

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF  
THE NET PENSION LIABILITY  
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

LAST THREE FISCAL YEARS

	<u>2015</u>	<u>2014</u>	<u>2013</u>
District's proportion of the net pension liability	0.04876522%	0.04801106%	0.04801106%
District's proportionate share of the net pension liability	\$ 13,477,280	\$ 11,677,951	\$ 13,910,699
District's covered-employee payroll	\$ 5,087,836	\$ 4,905,408	\$ 4,927,808
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	264.89%	238.06%	282.29%
Plan fiduciary net position as a percentage of the total pension liability	72.10%	74.70%	69.30%

Note: Information prior to fiscal year 2013 was unavailable.

Amounts presented as of the District's measurement date which is the prior fiscal year end.

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

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF DISTRICT CONTRIBUTIONS  
SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

LAST TEN FISCAL YEARS

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually required contribution	\$ 328,467	\$ 297,063	\$ 286,166	\$ 279,539
Contributions in relation to the contractually required contribution	<u>(328,467)</u>	<u>(297,063)</u>	<u>(286,166)</u>	<u>(279,539)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 2,346,193	\$ 2,253,892	\$ 2,064,690	\$ 2,019,790
Contributions as a percentage of covered-employee payroll	14.00%	13.18%	13.86%	13.84%

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$ 270,065	\$ 243,582	\$ 261,459	\$ 197,753	\$ 209,517	\$ 221,763
<u>(270,065)</u>	<u>(243,582)</u>	<u>(261,459)</u>	<u>(197,753)</u>	<u>(209,517)</u>	<u>(221,763)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 2,007,918	\$ 1,937,804	\$ 1,931,012	\$ 2,009,685	\$ 2,133,574	\$ 2,076,433
13.45%	12.57%	13.54%	9.84%	9.82%	10.68%

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

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF DISTRICT CONTRIBUTIONS  
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

LAST TEN FISCAL YEARS

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually required contribution	\$ 738,811	\$ 712,297	\$ 637,703	\$ 640,615
Contributions in relation to the contractually required contribution	<u>(738,811)</u>	<u>(712,297)</u>	<u>(637,703)</u>	<u>(640,615)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 5,277,221	\$ 5,087,836	\$ 4,905,408	\$ 4,927,808
Contributions as a percentage of covered-employee payroll	14.00%	14.00%	13.00%	13.00%

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$ 690,654	\$ 709,031	\$ 706,687	\$ 773,787	\$ 752,565	\$ 757,456
<u>(690,654)</u>	<u>(709,031)</u>	<u>(706,687)</u>	<u>(773,787)</u>	<u>(752,565)</u>	<u>(757,456)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 5,312,723	\$ 5,454,085	\$ 5,436,054	\$ 5,952,208	\$ 5,788,962	\$ 5,826,585
13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

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

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

*SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO*

*Changes in benefit terms* : There were no changes in benefit terms from the amounts reported for fiscal years 2014 - 2016.

*Changes in assumptions* : There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2014 - 2016. See the notes to the basic financial statements for the methods and assumptions in this calculation.

*STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO*

*Changes in benefit terms* : There were no changes in benefit terms from the amounts reported for fiscal years 2014 - 2016.

*Changes in assumptions* : There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2014 - 2016. See the notes to the basic financial statements for the methods and assumptions in this calculation.





**Julian & Grube, Inc.**  
*Serving Ohio Local Governments*

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

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**Independent Auditor's 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

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Margaretta Local School District, Erie County, as of and for the fiscal year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Margaretta Local School District's basic financial statements and have issued our report thereon dated December 20, 2016.

***Internal Control Over Financial Reporting***

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

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

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

Board of Education  
Margaretta Local School District

***Compliance and Other Matters***

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

***Purpose of this Report***

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

A handwritten signature in cursive script that reads "Julian & Grube, Inc.".

Julian & Grube, Inc.  
December 20, 2016



# Dave Yost • 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  
FEBRUARY 28, 2017**