



**JIM PETRO**  
**AUDITOR OF STATE**  

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**STATE OF OHIO**



MARGARETTA LOCAL SCHOOL DISTRICT  
ERIE COUNTY

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## REPORT OF INDEPENDENT ACCOUNTANTS

Margaretta Local School District  
Erie County  
305 South Washington Street  
Castalia, Ohio 44824-9278

To the Board of Education:

We have audited the accompanying financial statements of Margaretta Local School District (the District) as of and for the year ended June 30, 2001. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

Ohio Administrative Code § 117-2-03 (B) requires the District to prepare its financial report in accordance with generally accepted accounting principles. However, as described in Note 1, the District prepares its financial report on the basis of accounting formerly prescribed or permitted by the Auditor of State, which is a basis of accounting other than generally accepted accounting principles. The accompanying financial statements omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined cash, investments, and combined fund cash balances of the Margaretta Local School District, Erie County, Ohio, as of June 30, 2001, and its combined cash receipts and disbursements and its combined budgeted and actual receipts and budgeted and actual disbursements and encumbrances, for the year then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 5, 2001, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the financial statements of the District taken as a whole. The accompanying schedule of federal awards expenditures is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of management, the Board of Education and other officials authorized to receive this report under § 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

**Jim Petro**  
Auditor of State

November 5, 2001

MARGARETTA LOCAL SCHOOL DISTRICT  
ERIE COUNTY

COMBINED STATEMENT OF CASH, INVESTMENTS AND  
FUND CASH BALANCES - ALL FUND TYPES  
AS OF JUNE 30, 2001

Cash and Investments \$4,349,011

CASH BALANCES BY FUND TYPES

<b>Governmental Fund Type:</b>	
General Fund	\$3,822,339
Special Revenue Funds	162,060
Capital Projects Funds	2,235
<b>Proprietary Fund Type:</b>	
Enterprise Funds	50,734
<b>Fiduciary Fund Type:</b>	
Nonexpendable Trust Funds	234,798
Expendable Trust Funds	17,242
Agency Funds	<u>59,603</u>
<b>Total</b>	<u><u>\$4,349,011</u></u>

*The notes to the financial statements are an integral part of this statement.*

**MARGARETTA LOCAL SCHOOL DISTRICT  
ERIE COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND CHANGES IN  
FUND CASH BALANCES - ALL GOVERNMENTAL AND SIMILAR FIDUCIARY FUND TYPES  
FOR THE YEAR ENDED JUNE 30, 2001**

	<u>Governmental Fund Types</u>			<u>Fiduciary Fund Type</u>	<b>Totals (Memorandum Only)</b>
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Expendable Trust</u>	
<b>Cash Receipts</b>					
Local Sources:					
Taxes	\$6,049,759		\$199,429		\$6,249,188
Tuition	179,441				179,441
Earnings on Investment	208,159	\$5,181	1,005	\$501	214,846
Extracurricular Activities		390,057		2,395	392,452
Classroom Materials and Fees	76,450				76,450
Miscellaneous Receipts	56,986	2,468		6,200	65,654
State Sources:					
Unrestricted Grants-In-Aid	4,464,601		18,210		4,482,811
Restricted Grants-In-Aid	34,519	48,145	53,032		135,696
Federal Sources:					
Restricted Grants-In-Aid		297,344			297,344
<b>Total Cash Receipts</b>	<u>11,069,915</u>	<u>743,195</u>	<u>271,676</u>	<u>9,096</u>	<u>12,093,882</u>
<b>Cash Disbursements</b>					
Instruction:					
Regular	4,301,850	9,303	111,511		4,422,664
Special	929,655	169,638			1,099,293
Vocational Education	309,703				309,703
Other	12,010	2,029			14,039
Support Services:					
Pupils	351,715	75,027			426,742
Instructional Staff	477,910	20,165			498,075
Board of Education	63,403		483		63,886
Administration	750,657				750,657
Fiscal	310,788		3,060		313,848
Operation and Maintenance - Plant	1,121,672				1,121,672
Pupil Transportation	727,272				727,272
Non-instructional Services:					
Community Service	14,547				14,547
Other Non-Instructional Services		205,877		6,295	212,172
Extracurricular Activities:					
Academic and Subject Oriented	24,426	3,513			27,939
Sports Oriented	135,050	203,076			338,126
Co-curricular Activities	10,153				10,153
Building Acquisition and Construction			174,731		174,731
Debt Service:					
Repayment of Debt			45,500		45,500
<b>Total Cash Disbursements</b>	<u>9,540,811</u>	<u>688,628</u>	<u>335,285</u>	<u>6,295</u>	<u>10,571,019</u>
Excess of Cash Receipts Over (Under) Cash Disbursements	<u>1,529,104</u>	<u>54,567</u>	<u>(63,609)</u>	<u>2,801</u>	<u>1,522,863</u>

(Continued)

**MARGARETTA LOCAL SCHOOL DISTRICT  
ERIE COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND CHANGES IN  
FUND CASH BALANCES - ALL GOVERNMENTAL AND SIMILAR FIDUCIARY FUND TYPES  
FOR THE YEAR ENDED JUNE 30, 2001  
(Continued)**

	<u>Governmental Fund Types</u>			<u>Fiduciary Fund Type</u>	<b>Totals (Memorandum Only)</b>
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Expendable Trust</u>	
<b>Other Financing Sources (Uses)</b>					
Pass Through Payments	(6,238)				(6,238)
Refund of Prior Year Disbursements	1,620	57			1,677
Transfers-in		16,430			16,430
Transfers-out	(24,122)			(20,831)	(44,953)
Total Other Financing Sources (Uses)	(28,740)	16,487		(20,831)	(33,084)
Excess of Cash Receipts and Other Financing Sources Over (Under)					
Disbursements and Other Financing Uses	1,500,364	71,054	(63,609)	(18,030)	1,489,779
Fund Cash Balances at July 1, 2000	2,321,975	91,006	65,844	35,272	2,514,097
<b>Fund Cash Balances at June 30, 2001</b>	<b><u>\$3,822,339</u></b>	<b><u>\$162,060</u></b>	<b><u>\$2,235</u></b>	<b><u>\$17,242</u></b>	<b><u>\$4,003,876</u></b>

*The notes to the financial statements are an integral part of this statement.*

**MARGARETTA LOCAL SCHOOL DISTRICT  
ERIE COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND CHANGES IN  
FUND CASH BALANCES - ALL PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES  
FOR THE YEAR ENDED JUNE 30, 2001**

	Proprietary Fund Type	Fiduciary Fund Types		Totals (Memorandum Only)
	Enterprise	Nonexpendable Trust	Agency	
<b>Operating Receipts</b>				
Earnings on Investments		\$11,449		\$11,449
Extracurricular Activities			\$98,504	98,504
Food Service	\$381,021			381,021
Miscellaneous Receipts		1,880		1,880
Total Operating Receipts	381,021	13,329	98,504	492,854
<b>Operating Disbursements</b>				
Employees Salaries and Wages	200,553			200,553
Employees Retirement and Insurance	66,697		11,090	77,787
Purchased Services	2,518		800	3,318
Supplies and Materials	196,570		94,228	290,798
Capital Outlay	1,542			1,542
Other Objects		14,101	8,906	23,007
Total Operating Disbursements	467,880	14,101	115,024	597,005
Excess of Operating Receipts Over (Under) Operating Disbursements	(86,859)	(772)	(16,520)	(104,151)
<b>Nonoperating Receipts</b>				
Earnings on Investments	1,136		12,194	13,330
Miscellaneous Receipts			589	589
State Sources	3,643			3,643
Federal Sources	90,655			90,655
Total Nonoperating Receipts	95,434		12,783	108,217
Excess of Receipts Over/(Under) Disbursements Before Interfund Transfers and Advances	8,575	(772)	(3,737)	4,066
Transfers-In			28,523	28,523
Net Receipts Over (Under) Disbursements	8,575	(772)	24,786	32,589
Fund Cash Balances at July 1, 2000	42,159	235,570	34,817	312,546
<b>Fund Cash Balances at June 30, 2001</b>	<b>\$50,734</b>	<b>\$234,798</b>	<b>\$59,603</b>	<b>\$345,135</b>

*The notes to the financial statements are an integral part of this statement.*

**MARGARETTA LOCAL SCHOOL DISTRICT  
ERIE COUNTY**

**COMBINED STATEMENT OF RECEIPTS  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2001**

	<b>Budget</b>	<b>Actual</b>	<b>Variance: Favorable (Unfavorable)</b>
<b>Governmental Fund Type:</b>			
General Fund	\$9,954,097	\$11,071,535	\$1,117,438
Special Revenue Funds	439,659	759,682	320,023
Capital Projects Funds	254,002	271,676	17,674
<b>Proprietary Fund Type:</b>			
Enterprise Funds	428,089	476,455	48,366
<b>Fiduciary Fund Type:</b>			
Trust and Agency Funds	146,579	162,235	15,656
<b>Total</b>	<b>\$11,222,426</b>	<b>\$12,741,583</b>	<b>\$1,519,157</b>

*The notes to the financial statements are an integral part of this statement.*

**MARGARETTA LOCAL SCHOOL DISTRICT  
ERIE COUNTY**

**COMBINED STATEMENT OF DISBURSEMENTS AND  
ENCUMBRANCES COMPARED WITH EXPENDITURE AUTHORITY  
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

	<u>Prior Year Carryover Appropriations</u>	<u>2001 Appropriations</u>	<u>Total</u>
<b>Governmental Fund Type:</b>			
General Fund	\$172,896	\$9,574,700	\$9,747,596
Special Revenue Funds	32,419		32,419
Capital Projects Funds	35,248	253,000	288,248
<b>Proprietary Fund Type:</b>			
Enterprise Funds	248	453,000	453,248
<b>Fiduciary Fund Type:</b>			
Trust and Agency Funds	1,238		1,238
<b>Total</b>	<u><b>\$242,049</b></u>	<u><b>\$10,280,700</b></u>	<u><b>\$10,522,749</b></u>

*The notes to the financial statements are an integral part of this statement.*

<u>Actual 2001 Disbursements</u>	<u>Encumbrances Outstanding at 6/30/01</u>	<u>Total</u>	<u>Variance: Favorable (Unfavorable)</u>
\$9,571,171	\$199,757	\$9,770,928	(\$23,332)
688,628	18,820	707,448	(675,029)
335,285	155,569	490,854	(202,606)
467,880		467,880	(14,632)
156,251		156,251	(155,013)
<u><b>\$11,219,215</b></u>	<u><b>\$374,146</b></u>	<u><b>\$11,593,361</b></u>	<u><b>(\$1,070,612)</b></u>

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**MARGARETTA LOCAL SCHOOL DISTRICT  
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2001**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Description of The Entity**

Margaretta Local School District, Erie County, Ohio, (the District) is a local school district as defined by § 3311.03 of the Ohio Revised Code. The District operates under an elected Board of Education and is responsible for providing public education to the residents of the District.

The District operates three instructional facilities and provides educational services to students from grades 1 through 12.

The District believes these financial statements present all activities for which the District is accountable.

**B. Funds Reported**

**1. General Fund**

The general fund is the operating fund of the District. It is used to account for all financial resources except those required to be accounted for in other funds.

**2. Special Revenue Funds**

Special revenue funds account for the proceeds of specific revenue sources (other than capital projects or trust funds) that are legally restricted to expenditures for specified purposes.

**3. Capital Projects Funds**

Capital project funds account for financial resources to be used for the acquisition or construction of major capital facilities.

**4. Enterprise Funds**

Enterprise funds account for operations which are financed and operated in a manner similar to private business enterprises and for which the District intends to support a material portion of the operating costs with user charges.

**5. Expendable Trust Funds**

Expendable trust funds account for assets held in trust where both principal and interest can be spent.

**6. Nonexpendable Trust Funds**

Nonexpendable trust funds account for assets held in trust where the corpus of the trust is not expendable.

**MARGARETTA LOCAL SCHOOL DISTRICT  
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2001  
(Continued)**

**7. Agency Funds**

Agency funds are used to account for custodial funds held by the District acting as the agent for another government, organization, individual, or fund.

**C. Basis of Accounting**

Although required by Ohio Administrative Code § 117-2-03 (B) to prepare its financial statements in accordance with generally accepted accounting principles, the District chooses to prepare its financial report on the basis of accounting formerly prescribed or permitted by the Auditor of State. This basis of accounting is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved). Failing to follow generally accepted accounting principles is a condition sufficient for the Ohio Department of Education to place the District in a Fiscal Caution Status. This status requires the District to submit a corrective action plan to the Department. The Auditor of State is referring this report to the Ohio Department of Education.

These statements include adequate disclosures of material matters, as formerly prescribed or permitted by the Auditor of State.

**D. Budgetary Process**

**1. Budget**

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 appropriation 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 object level within each function. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

Advances in and Advances out are not required to be budgeted since they represent a temporary cash flow resource and are intended to be repaid.

**2. Tax Budget**

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

**MARGARETTA LOCAL SCHOOL DISTRICT  
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2001  
(Continued)**

**3. 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 June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered cash balances from the preceding year. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer.

Estimated receipts reported in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2001 and do not include the unencumbered fund balances as of July 1, 2001. However, those fund balances are available for appropriations.

**4. 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 must be legally enacted by the Board of Education at the fund, function, and object level of expenditures, which are the legal levels of budgetary control. 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.

**5. Encumbrances**

As part of formal budgetary control, purchase orders, contracts and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. Encumbrances plus expenditures may not legally exceed appropriations at the legal level of control. In the budgetary financial statements, encumbrances are included in budgetary expenditures. The budgetary fund balance is cash minus outstanding encumbrances.

**6. Lapsing of Appropriations**

At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriation. Encumbered appropriations are carried forward to the succeeding fiscal year and are not reappropriated.

**2. EQUITY IN POOLED CASH AND INVESTMENTS**

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

**MARGARETTA LOCAL SCHOOL DISTRICT  
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2001  
(Continued)**

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 two year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim 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 pass book accounts.

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

State Statute permits interim monies to be deposited or invested in the following securities:

1. United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed 25 percent of the interim moneys available for investment at any one time; and,

**MARGARETTA LOCAL SCHOOL DISTRICT  
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2001  
(Continued)**

8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

During fiscal year 2001, the District's investments were limited to certificates of deposit, STAR Ohio, and federal securities. During the fiscal year, all investments of the District had a maturity of two years or less.

The carrying amount of cash and investments at June 30, 2001 was as follows:

Bank Deposits	
Demand Deposits	\$84,059
Certificates of Deposit	<u>1,710,189</u>
Total Bank Deposits	1,794,248
Investments	
STAR Ohio	<u>2,554,763</u>
Total Bank Deposits and Investments	<u><u>\$4,349,011</u></u>

The following information classifies deposits and investments by categories of risk.

**A. Deposits**

At year-end, the carrying amount of the District's deposits was \$1,794,248 as shown above and the bank balance was \$1,946,034. The bank balance was covered by federal depository insurance, by eligible securities pledged by the financial institution as security for repayment, and by surety company bonds deposited with the Treasurer by the financial institution.

**B. Investments**

The District's investments are categorized below to give an indication of the level of risk assumed at fiscal year end. Investments are usually categorized into three categories of credit risk:

Category 1: Securities held by the District or its agent in the District's name.

Category 2: Securities held by the counter party's trust department or agent in the District's name.

Category 3: Securities held by the counter party, or by its trust department or agent but not in the District's name.

**MARGARETTA LOCAL SCHOOL DISTRICT  
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2001  
(Continued)**

The District's investments in STAR Ohio, an investment pool operated by the Ohio State Treasurer, are unclassified investments since they are not evidenced by securities that exist in physical or book entry form.

	Carrying Value
STAR Ohio	<u>\$2,554,763</u>

**3. PROPERTY TAX**

Property taxes are levied and assessed on a calendar year basis. Second half distributions occur in a new fiscal year. Property taxes include amounts levied against all real, public utility and tangible personal (used in business) property located in the District. Real property taxes are levied after April 1 on the assessed value listed as of the prior January 1, the lien date. Public utility property taxes attached as a lien on December 31 of the prior year, are levied April 1 and are collected with real property taxes. Assessed values for real property taxes are established by State law at 35 percent of appraised market value. All property is required to be revalued every six years.

Public utility property taxes are assessed on tangible personal property at 88 percent of true value (with certain exceptions) and on real property at thirty-five percent of true value. Tangible personal property taxes are levied after April 1 on the value listed as of December 31 of the current year. Tangible personal property assessments are twenty-five percent of true value.

Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established. Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20.

The District receives property taxes from Erie and Sandusky Counties. The County Auditors' periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County

The County is responsible for assessing property, and for billing, collecting, and distributing all property taxes on behalf of the District.

**4. DEFINED BENEFIT PENSION PLANS**

**A. School Employees Retirement System**

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer public employee retirement system administered by the School Employees Retirement Board. SERS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information for

**MARGARETTA LOCAL SCHOOL DISTRICT  
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2001  
(Continued)**

SERS. That report may be obtained by writing to the School Employees Retirement System, 45 North Fourth Street, Columbus, Ohio 43215-3634.

Contribution rates are also prescribed by the Ohio Revised Code. For fiscal year 2001, plan members contributed 9 percent of their annual-covered salary and the District contributed 14 percent. The District has paid all contributions required through June 30, 2001.

**B. State Teachers Retirement System**

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

Contribution rates are also prescribed by the Ohio Revised Code. For fiscal year 2001, members of STRS contributed 9.3 percent of their wages to the STRS. The District contributed an amount equal to 14 percent of their wages. The District has paid all contributions required through June 30, 2001.

**5. RISK MANAGEMENT**

The District has obtained commercial insurance for the following risks:

- Comprehensive property and general liability;
- Vehicles; and
- Errors and omissions.

**6. PUBLIC ENTITY RISK POOLS**

**A. Workers' Compensation**

The District participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by a three-member Board of directors consisting of the President, the President-Elect and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

**B. Health Benefits**

The Huron-Erie School Employees Insurance Association is a shared risk pool, with participants from Erie and Huron Counties. The Association is governed by an assembly which consists of one representative from each participant. The assembly elects officers for two year terms to serve as the Board of Directors. The assembly exercises control over the operation of the Association. All Association revenues are generated from charges for services. Financial

**MARGARETTA LOCAL SCHOOL DISTRICT  
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2001  
(Continued)**

information can be obtained by writing to The Erie-Ottawa-Huron County Educational Service Center, 2900 South Columbus Avenue, Sandusky, Ohio 44870.

**7. STATE SCHOOL FUNDING DECISION**

On September 6, 2001, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision identified aspects of the current plan that require modification if the plan is to be considered constitutional, including:

- A change in the school districts that are used as the basis for determining the base cost support amount. Any change in the amount of funds distributed to school districts as a result of this change must be retroactive to July 1, 2001, although a time line for distribution is not specified.
- Fully funding parity aid no later than the beginning of fiscal year 2004 rather than fiscal year 2006.

The Supreme Court relinquished jurisdiction over the case based on anticipated compliance with its order.

In general, it is expected that the decision would result in an increase in State funding for most Ohio school districts. However, as of November 5, 2001, the Ohio General Assembly is still analyzing the impact this Supreme Court decision will have on funding for individual school districts. Further, the State of Ohio, in a motion filed September 17, 2001, asked the Court to reconsider and clarify the parts of the decision changing the school districts that are used as the basis for determining the base cost support amount and the requirement that changes be made retroactive to July 1, 2001.

On November 2, 2001, the Court granted this motion for reconsideration. The Court may reexamine and redetermine any issue upon such consideration.

As of the date of these financial statements, the School District is unable to determine what effect, if any, this decision and the reconsideration will have on its future State funding and on its financial operations.

**8. COMPLIANCE**

Contrary to Ohio law, as of June 30, 2001, the following funds had expenditures and encumbrances in excess of appropriations:

<u>Name of Fund</u>	<u>Amount</u>
General Fund	\$23,332
Public School Support Fund	188,550
Athletic Fund	204,786
Professional Development Block Grant Fund	3,200
Education Management Information System Fund	1,313
Network Grant Fund	26,851
Summer School Intervention Fund	6,030
Safe School Help Fund	1,386
Professional Development Fund	5,655
Title VI-B Fund	98,185

**MARGARETTA LOCAL SCHOOL DISTRICT  
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2001  
(Continued)**

<u>Name of Fund</u>	<u>Amount</u>
Pre-School Grant Fund	7,911
Title I Fund	110,389
Title 6 Fund	9,854
Drug Free School Fund	6,390
School Net Professional Development Fund	2,750
Ohio Reads Grant Fund	2,029
Permanent Improvement Fund	151,293
School Net Fund	51,313
Food Service Fund	14,632
Scholarship Fund	25,888
Nonexpendable Trust Fund	14,101

Contrary to Ohio law, during the year ended June 30, 2001, the District did not consistently certify the availability of funds prior to a commitment being incurred.

**9. SET-ASIDE CALCULATIONS AND FUND RESERVES**

The District is required by State statute to annually set aside in the general fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. The amount set-aside may be reduced by offset credits, which are monies received and restricted for the same specific purpose. Amounts not spent by year-end or reduced by offset credits must be held in cash at year-end and carried forward to be used for the same purposes in future years.

The following cash basis information describes the change in the year-end set-aside amounts for textbooks, capital maintenance, and budget stabilization. Disclosure of this information is required by State statute.

	<u>Textbooks</u>	<u>Capital Maintenance</u>	<u>Budget Stabilization</u>
Set-aside Reserve Balance as of June 30, 2000	(\$148,079)		\$143,699
Reduction of Budget Stabilization Set-aside in accordance with S.B. 345			(92,265)
Current Year Set-aside Requirement	210,144	\$210,144	
Current Year Offsets		(190,634)	
Qualifying Disbursements	(532,188)	(480,306)	
Total	<u>(\$470,123)</u>	<u>(\$460,796)</u>	<u>\$51,434</u>
Reserve Balance Carried Forward to FY 2002	<u>(\$470,123)</u>		<u>\$51,434</u>
Total Restricted Cash/Fund Balance Reserve			<u>\$51,434</u>

Although the District has offsets and qualifying disbursements during the year that reduced the set-aside requirements below zero, only the amount for textbooks may be used to reduce the set-aside requirements of future years.

**MARGARETTA LOCAL SCHOOL DISTRICT  
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2001  
(Continued)**

Senate Bill (S.B.) 345, 123rd General Assembly eliminated the requirement for the Budget Stabilization set-aside. S.B. 345 places special restrictions of the use of Bureau of Workers Compensation (BWC) Rebate money remaining in the Budget Stabilization as of April 10, 2001, which is \$51,434 at June 30, 2001.

**MARGARETTA LOCAL SCHOOL DISTRICT  
ERIE COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
JUNE 30, 2001**

<b>FEDERAL GRANTOR</b> <i>Pass-Through Grantor</i> Program Title	Federal CFDA Number	Pass Through Entity Number	Receipts	Non-cash Receipts	Disburse- ments	Non-cash Disburse- ments
<b>UNITED STATES DEPARTMENT OF EDUCATION</b> <i>Passed Through Ohio Department of Education</i>						
Local Educational Agencies-Title 1	84.010	C1-S1-99	\$2,614		\$38	
		C1-S1-00	45,833		38,246	
		C1-S1-01	96,306		73,212	
Total Title 1			144,753		111,496	
Innovative Education Program	84.298	C2-S1-98	584			
		C2-S1-99			2,095	
		C2-S1-00			1,178	
Strategies		C2-S1-01	1,373			
Total Innovative Education Program Strategies			1,957		3,273	
Special Education Cluster:						
Special Education Grants to States	84.027	6B-SF-99	5,721			
		6B-SF-00	22,480		7,713	
		6B-SF-01	97,266		90,471	
Special Education - Preschool Grant	84.173	PG-S1-01	7,911		7,911	
Total Special Education Cluster			133,378		106,095	
Drug Free Schools Grant	84.186	DR-S1-01	6,390		6,390	
Classroom Reduction	84.340	CR-S1-01	7,838			
Eisenhower Professional Development	84.281	MS-S1-01	5,665		5,655	
Total United States Department of Education			299,981		232,909	
<b>UNITED STATES DEPARTMENT OF AGRICULTURE</b> <i>Passed Through Ohio Department of Education:</i>						
Nutrition Cluster:						
Food Distribution Program	10.550	-		\$40,478		\$40,819
National School Lunch Program	10.555	LL-P1-00-00	16,364		16,364	
		LL-P1-00-01	42,055		42,055	
		LL-P4-00-00	8,968		8,968	
		LL-P4-00-01	23,268		23,268	
Total United States Department of Agriculture - Nutrition Cluster			90,655	40,478	90,655	40,819
<b>Total Federal Financial Assistance</b>			<b>\$390,636</b>	<b>\$40,478</b>	<b>\$323,564</b>	<b>\$40,819</b>

*The accompanying notes are an integral part of this schedule.*

**MARGARETTA LOCAL SCHOOL DISTRICT  
ERIE COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2001**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B - FOOD DISTRIBUTION**

Nonmonetary assistance, such as food received from the U.S. Department of Agriculture, is reported in the Schedule at the fair market value of the commodities received and consumed. Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first. At June 30, 2001, the District had no significant food commodities in inventory.



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

Margaretta Local School District  
Erie County  
305 South Washington Street  
Castalia, Ohio 44824-9278

To the Board of Education:

We have audited the financial statements of Margaretta Local School District (the District) as of and for the year ended June 30, 2001, and have issued our report thereon dated November 5, 2001, in which we noted that the District has prepared its annual financial report on a basis other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2001-10522-001 through 2001-10522-003. We also noted certain immaterial instances of noncompliance that we have reported to management of the District in a separate letter dated November 5, 2001.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated November 5, 2001.

Margaretta Local School District  
Erie County  
Report of Independent Accountants on Compliance and on Internal Control  
Required by *Government Auditing Standards*  
Page 2

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

**Jim Petro**  
Auditor of State

November 5, 2001



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

Margaretta Local School District  
Erie County  
305 South Washington Street  
Castalia, Ohio 44824-9278

To the Board of Education:

**Compliance**

We have audited the compliance of Margaretta Local School District (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2001. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2001.

**Internal Control Over Compliance**

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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

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

**Jim Petro**  
Auditor of State

November 5, 2001

**MARGARETTA LOCAL SCHOOL DISTRICT  
ERIE COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2001**

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

<b>(d)(1)(i)</b>	<b>Type of Financial Statement Opinion</b>	Unqualified
<b>(d)(1)(ii)</b>	<b>Were there any material control weakness conditions reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(ii)</b>	<b>Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(iii)</b>	<b>Was there any reported material noncompliance at the financial statement level (GAGAS)?</b>	Yes
<b>(d)(1)(iv)</b>	<b>Were there any material internal control weakness conditions reported for major federal programs?</b>	No
<b>(d)(1)(iv)</b>	<b>Were there any other reportable internal control weakness conditions reported for major federal programs?</b>	No
<b>(d)(1)(v)</b>	<b>Type of Major Programs' Compliance Opinion</b>	Unqualified
<b>(d)(1)(vi)</b>	<b>Are there any reportable findings under § .510?</b>	No
<b>(d)(1)(vii)</b>	<b>Major Programs (list):</b>	Child Nutrition Cluster - CFDA #10.550 and #10.555
<b>(d)(1)(viii)</b>	<b>Dollar Threshold: Type A/B Programs</b>	Type A: > \$ 300,000 Type B: all others
<b>(d)(1)(ix)</b>	<b>Low Risk Auditee?</b>	Yes

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

**FINDING NUMBER 2001-10522-001**

**Noncompliance Citation**

Ohio Administrative Code § 117-2-03 (B) requires the District to prepare its annual financial report in accordance with generally accepted accounting principles (GAAP). However, the District prepared its annual financial report for the fiscal year ending June 30, 2001, on the basis of accounting formerly prescribed or permitted by the Auditor of State, which is a basis of accounting other than generally accepted accounting principles. The accompanying financial statements omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. The District can be fined and various other legal remedies may be taken against the District.

**FINDING NUMBER 2001-10522-001  
 (Continued)**

We recommend that the District file their financial report in accordance with GAAP. Failing to follow generally accepted accounting principles is a condition sufficient for the Ohio Department of Education to place the District in a Fiscal Caution Status. This status requires the District to submit a corrective action plan to the Department. The Auditor of State is referring this report to the Ohio Department of Education.

The District understands this requirement but feels there is no cost-benefit to converting to GAAP.

**FINDING NUMBER 2001-10522-002**

**Noncompliance Citation**

Ohio Revised Code § 5705.41 (B) prohibits a subdivision from making an expenditure unless it has been properly appropriated. The District had various funds where expenditures and encumbrances exceeded appropriations. As of June 30, 2001, the following funds had expenditures and encumbrances in excess of appropriations:

Name of Fund Type	Appropriations	Expenditures and Encumbrances	Variance
General Fund	\$9,747,596	\$9,770,928	(23,332)
Public School Support Fund	23,193	211,743	(188,550)
Athletic Fund	7,349	212,135	(204,786)
Professional Development Block Grant Fund		3,200	(3,200)
Education Management Information System Fund		1,313	(1,313)
Network Grant Fund		26,851	(26,851)
Summer School Intervention Fund		6,030	(6,030)
Safe School Help Line Fund		1,386	(1,386)
Professional Development Fund		5,655	(5,655)
Title VI-B Fund		98,185	(98,185)
Pre-School Grant Fund		7,911	(7,911)
Title 1 Grant Fund	1,106	111,495	(110,389)
Title 6 Grand Fund	521	10,375	(9,854)
Drug Free School Fund		6,390	(6,390)
School Net Professional Development Fund		2,750	(2,750)
Ohio Reads Grant Fund		2,029	(2,029)
Permanent Improvement Fund	288,248	439,541	(151,293)
School Net Fund		51,313	(51,313)
Food Service Fund	453,248	467,880	(14,632)
Scholarship Fund	1,238	27,126	(25,888)
Nonexpendable Trust Fund		14,101	(14,101)

The failure to limit spending to only those amounts approved by the Board of Education could allow expenditures to exceed available resources and create deficit fund balances. The District should monitor the budget to ensure that all expenditures and encumbrances have been appropriated.

**FINDING NUMBER 2001-10522-002  
(Continued)**

The District's annual appropriation resolution approved by the Board only reflected appropriations for the General, Permanent Improvement, and Food Service Fund. The only appropriations for Special Revenue funds were carryover appropriations for fiscal year 2000. The District believes that the Board of Education has a better overview of the actual costs of operations and does not need to appropriate for Special Revenue funds which consists of mainly state or federally funded programs. Also, the Board feels this allows various teachers, principals and the athletic department to only spend whatever the actual cash balance is at that time and reduces the chances of deficit balances to exist in these funds. We recommend that all funds be budgeted in accordance with budgetary laws to assist the District in monitoring expenditures.

**FINDING NUMBER 2001-10522-003**

**Noncompliance Citation**

Ohio Revised Code § 5705.41 (D) states that no subdivision shall make any contract or order any expenditure of money unless the certificate of the fiscal officer is attached. The fiscal officer must certify that the total amount required to meet such a commitment has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriated fund free from any previous encumbrance. This section provides two exceptions to the above requirements:

- A. Then and Now Certificate - if no certificate is furnished as required, upon receipt of the fiscal officer's certificate that a sufficient sum was appropriated and free of any previous encumbrance, the governing authority may authorize the issuance of a warrant in payment of the amount due upon such contracts or order by resolution within 30 days from the receipt of such certificates, if such expenditure is otherwise valid.
- B. If the amount is less than \$1000, the fiscal officer may authorize it to be paid without the affirmation of the governing authority, if such expenditure is otherwise valid.

Seventy two percent of tested transactions did not have the required certification attached. The District did not print all purchase orders issued, which contain the certification statement, thus the certification statement did not bear the Treasurer's signature attesting to the certification.

This situation could allow expenditures to exceed available resources. We recommend that the District print purchase orders for all expenditures and the Treasurer sign the certification statement.

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

None.

**MARGARETTA LOCAL SCHOOL DISTRICT  
ERIE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
JUNE 30, 2001**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain:</i></b>
2000-10522-001	OAC § 117-2-01 (New OAC § 117-2-03 (B)) Failure to file GAAP report	No	Not Corrected. Reissued as Finding 2001-10522-001.
2000-10522-002	ORC § 5705.41(B) Expenditures exceeding appropriations.	No	Not Corrected. Reissued as Finding 2001-10522-002.
2000-10522-003	ORC § 5705.41(D) Failure of fiscal officer to certify expenditures	No	Not Corrected. Reissued as Finding 2001-10522-003.



STATE OF OHIO  
OFFICE OF THE AUDITOR  

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**MARGARETTA LOCAL SCHOOL DISTRICT**

**ERIE COUNTY**

**CLERK'S CERTIFICATION**

**This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.**

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
DECEMBER 4, 2001**