



Dave Yost • Auditor of State

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Auditor's Report.....	1
Management's Discussion and Analysis	5
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.....	24
Schedule of Federal Awards Receipts and Expenditures	51
Notes to the Schedule of Federal Awards Receipts and Expenditures.....	52
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	53
Independent Auditor's Report on Compliance With Requirements Applicable to the Major Federal Program and on Internal Control Over Compliance Required by OMB Circular A-133.....	55
Schedule of Findings	57

This page intentionally left blank.



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

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

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 Margaretta Local School District, Erie County, Ohio (the District), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the 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 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 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 Margaretta Local School District, Erie County, Ohio, as of June 30, 2014, and the respective changes in financial position thereof and the budgetary comparison for the General Fund thereof for the 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*, 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.

Supplementary and Other Information

Our audit was conducted to opine on the District's basic financial statements taken as a whole.

The Schedule of Federal Awards Receipts and Expenditures presents additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and is also not a required part of the financial statements.

The schedule is management's responsibility, and derives from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected this schedule to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this schedule directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves in accordance with auditing standards generally accepted in the United States of America. In our opinion, this schedule is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 24, 2015, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. 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 District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State

Columbus, Ohio

March 24, 2015

This page intentionally left blank.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(UNAUDITED)

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, 2014. 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 2014 are as follows:

- Net position of governmental activities increased \$848,861 which represents a 19.41% increase from 2013.
- General revenues accounted for \$11,662,722 in revenue or 76.19% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$3,645,276 or 23.81% of total revenues of \$15,307,998.
- The District had \$14,459,137 in expenses related to governmental activities; only \$3,645,276 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$11,662,722 were adequate to provide for these programs.
- The District's only major governmental fund is the general fund. The general fund had \$13,833,000 in revenues and \$13,218,905 in expenditures and other financing uses. During fiscal year 2014, the general fund's fund balance increased \$614,095 from a fund balance of \$1,380,592 to a fund balance of \$1,994,687.

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 2014?" 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, 2014
(UNAUDITED)

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.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(UNAUDITED)

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, 2014 and June 30, 2013.

	Net Position	
	Governmental Activities 2014	Governmental Activities 2013
<u>Assets</u>		
Current and other assets	\$ 8,974,745	\$ 8,073,866
Capital assets, net	<u>5,587,626</u>	<u>5,490,589</u>
Total assets	<u>14,562,371</u>	<u>13,564,455</u>
<u>Liabilities</u>		
Current liabilities	1,366,929	1,393,529
Long-term liabilities	<u>2,932,607</u>	<u>3,045,804</u>
Total liabilities	<u>4,299,536</u>	<u>4,439,333</u>
<u>Deferred inflows of resources</u>	<u>5,040,479</u>	<u>4,751,627</u>
<u>Net Position</u>		
Net investment in capital assets	3,402,626	3,201,589
Restricted	212,674	138,950
Unrestricted	<u>1,607,056</u>	<u>1,032,956</u>
Total net position	<u>\$ 5,222,356</u>	<u>\$ 4,373,495</u>

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2014, the District's assets exceeded liabilities plus deferred inflows of resources by \$5,222,356.

At year-end, capital assets represented 38.37% 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, 2014, was \$3,402,626. 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.

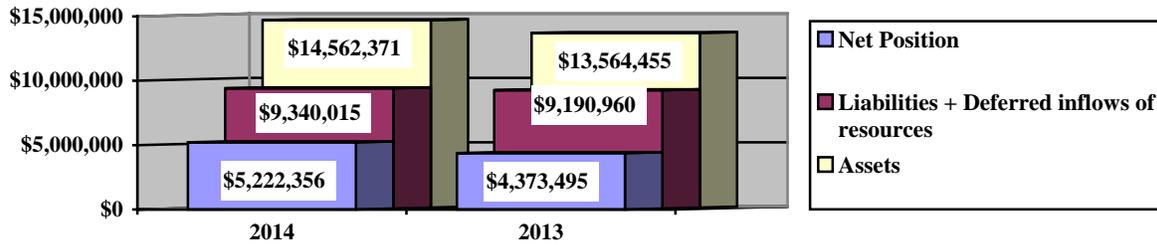
A portion of the District's net position, \$212,674, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net position of \$1,607,056 may be used to meet the District's ongoing obligations to the students and creditors.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(UNAUDITED)

The graph below illustrates the governmental activities assets, liabilities plus deferred inflows of resources, and net position at June 30, 2014 and June 30, 2013.

Governmental Activities



The table below shows the change in net position for fiscal years 2014 and 2013.

Change in Net Position

	Governmental Activities 2014	Governmental Activities 2013
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 2,273,556	\$ 1,976,824
Operating grants and contributions	1,371,720	1,169,145
General revenues:		
Property taxes	5,423,081	5,519,012
Grants and entitlements	5,970,155	5,989,140
Investment earnings	2,544	1,700
Miscellaneous	266,942	229,736
Total revenues	15,307,998	14,885,557

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(UNAUDITED)

<u>Expenses</u>	Change in Net Position	
	Governmental Activities	Governmental Activities
	<u>2014</u>	<u>2013</u>
Program expenses:		
Instruction:		
Regular	\$ 4,653,645	\$ 5,048,752
Special	1,912,715	1,386,827
Vocational	246,348	217,962
Other	1,049,849	838,435
Support services:		
Pupil	692,764	707,883
Instructional staff	756,699	897,740
Board of education	182,739	166,255
Administration	983,062	993,564
Fiscal	416,210	395,709
Operations and maintenance	1,187,432	1,114,569
Pupil transportation	1,043,228	1,124,970
Central	94,478	63,300
Operation of non-instructional services:		
Other non-instructional services	147,320	141,630
Food service operations	525,818	586,376
Extracurricular activities	468,192	506,536
Interest and fiscal charges	98,638	103,159
Total expenses	<u>14,459,137</u>	<u>14,293,667</u>
Change in net position	848,861	591,890
Net position at beginning of year	<u>4,373,495</u>	<u>3,781,605</u>
Net position at end of year	<u>\$ 5,222,356</u>	<u>\$ 4,373,495</u>

Governmental Activities

Net position of the District's governmental activities increased \$848,861. Total governmental expenses of \$14,459,137 were offset by program revenues of \$3,645,276 and general revenues of \$11,662,722. Program revenues supported 25.21% of the total governmental expenses.

The increase in charges for services can be attributed an increase in revenue related to services provided to Townsend Community School. The decrease in general revenues – grants and entitlements is due to flat funding from the State's Basic Aid coupled with reduction of the Tangible Personal Property Tax Loss Reimbursement.

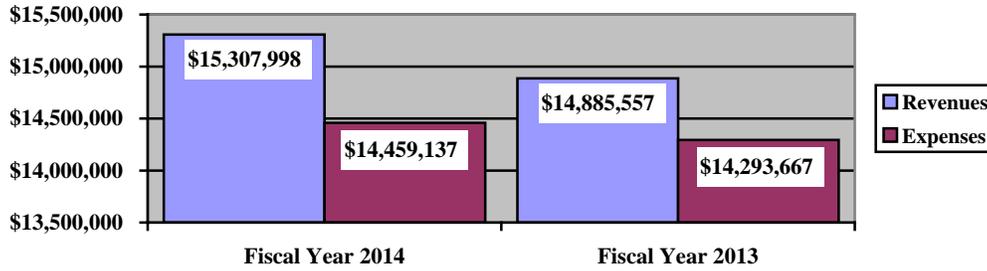
The primary sources of revenue for governmental activities are derived from property taxes and grants and entitlements. These two revenue sources represent 74.43% of total governmental revenue. Real estate property is reappraised every six years.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(UNAUDITED)

The graph below presents the District's governmental activities revenue and expenses for fiscal year 2014 and 2013.

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 <u>2014</u>	Net Cost of Services <u>2014</u>	Total Cost of Services <u>2013</u>	Net Cost of Services <u>2013</u>
Program expenses				
Instruction:				
Regular	\$ 4,653,645	\$ 3,615,020	\$ 5,048,752	\$ 3,978,574
Special	1,912,715	934,170	1,386,827	821,384
Vocational	246,348	219,583	217,962	191,707
Other	1,049,849	1,049,849	838,435	838,435
Support services:				
Pupil	692,764	529,333	707,883	538,388
Instructional staff	756,699	717,245	897,740	876,826
Board of education	182,739	182,739	166,255	166,255
Administration	983,062	983,062	993,564	993,564
Fiscal	416,210	416,210	395,709	395,709
Operations and maintenance	1,187,432	718,518	1,114,569	911,076
Pupil transportation	1,043,228	988,153	1,124,970	1,076,957
Central	94,478	94,478	63,300	63,300
Operations of non-instructional services:				
Other non-instructional services	147,320	27,729	141,630	30,759
Food service operations	525,818	(15,394)	586,376	9,378
Extracurricular activities	468,192	254,528	506,536	152,227
Interest and fiscal charges	98,638	98,638	103,159	103,159
Total expenses	\$ 14,459,137	\$ 10,813,861	\$ 14,293,667	\$ 11,147,698

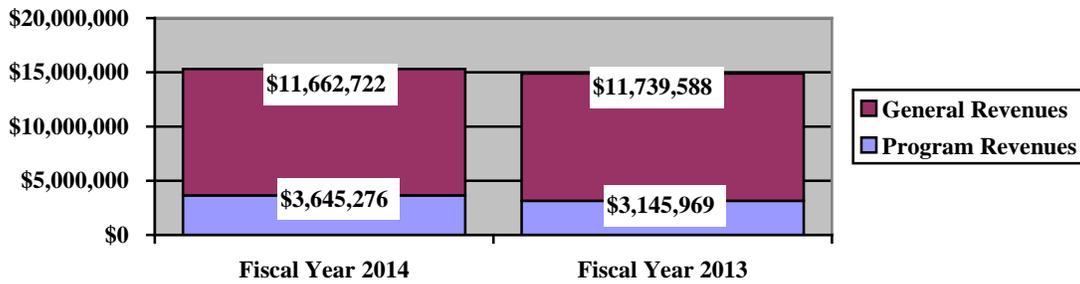
**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(UNAUDITED)

The dependence upon tax and other general revenues for governmental activities is apparent, 74.00% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 74.79%. 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 2014 and 2013.

Governmental Activities - General and Program Revenues



The District's Funds

The District's governmental funds (as presented on the balance sheet) reported a combined fund balance of \$2,136,159, which is more than last year's balance of \$1,426,681. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2014 and June 30, 2013.

	Fund Balance <u>June 30, 2014</u>	Fund Balance <u>June 30, 2013</u>	<u>Increase</u>
General	\$ 1,994,687	\$ 1,380,592	\$ 614,095
Other Governmental	141,472	46,089	95,383
Total	<u>\$ 2,136,159</u>	<u>\$ 1,426,681</u>	<u>\$ 709,478</u>

General Fund

The District's general fund balance increased \$614,095 from a fund balance of \$1,380,592 to a fund balance of \$1,994,687. This increase can be attributed to increased revenue related to tuition and rental income from the prior year. See the table on the following page for a more detailed look at the general fund.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(UNAUDITED)

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

	<u>2014</u> <u>Amount</u>	<u>2013</u> <u>Amount</u>	<u>Increase/ (Decrease)</u>	<u>Percentage Change</u>
<u>Revenues</u>				
Property taxes	\$ 5,303,183	\$ 5,451,035	\$ (147,852)	(2.71) %
Tuition	1,133,340	995,291	138,049	13.87 %
Earnings on investments	2,578	1,705	873	51.20 %
Classroom materials and fees	67,905	38,321	29,584	77.20 %
Other revenues	879,855	696,528	183,327	26.32 %
Intergovernmental	6,446,139	6,248,552	197,587	3.16 %
	<u> </u>	<u> </u>	<u> </u>	
Total	<u>\$ 13,833,000</u>	<u>\$ 13,431,432</u>	<u>\$ 401,568</u>	2.99 %
<u>Expenditures</u>				
Instruction	\$ 7,283,059	\$ 6,929,189	\$ 353,870	5.11 %
Support services	5,346,608	5,242,922	103,686	1.98 %
Operation of non-instructional services	146,978	141,288	5,690	4.03 %
Extracurricular activities	235,526	263,234	(27,708)	(10.53) %
Debt service	202,975	203,484	(509)	(0.25) %
	<u> </u>	<u> </u>	<u> </u>	
Total	<u>\$ 13,215,146</u>	<u>\$ 12,780,117</u>	<u>\$ 435,029</u>	3.40 %

Overall revenues of the general fund increased \$401,568 or 2.99%. The most significant increases were in the area of tuition and other revenues. Tuition revenue increased \$138,049 or 13.87% due to an increase in open enrollment from the prior year from public school districts in the area. This increase in open enrollment can attribute to the increase in classroom materials and fees from the prior year. The increase in other revenue can be attributed to an increase in rental income. This revenue line item increased as a result of increased services provided to the Townsend Community School ("TCS"). TCS is sponsored by the District and pays them a percentage of state aid received. The District receives rental payments from TCS as they are housed in one of the District's facilities. Although earnings on investments increased 51.20%, the dollar amount is deemed immaterial to the total of all revenues.

Overall expenditures of the general fund increased \$435,029 or 3.40%. The most significant increases were in the areas of instruction services. Instruction services increased \$353,870. This increase can be attributed to increased costs associated with increased services provided to TCS as well as the increase in costs associated with the increase in open enrollment.

General Fund Budgeting Highlights

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

During the course of fiscal year 2014, the District did not amend its general fund budgeted revenues. For the general fund, final budgeted revenues were \$13,298,624, which was the same as the original budgeted revenues. Actual revenues and other financing sources for fiscal year 2014 were \$13,826,323. This represents a \$527,699 increase from final budgeted revenues.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(UNAUDITED)

General fund original appropriations (appropriated expenditures plus other financing uses) of \$13,419,108 were increased to \$13,760,233 in the final budget. The actual budget basis expenditures and other financing uses for fiscal year 2014 totaled \$13,212,470, which was \$547,763 lower than the final budget appropriations.

Capital Assets

At the end of fiscal year 2014, the District had \$5,587,626 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, 2014 and June 30, 2013:

	Capital Assets at June 30	
	(Net of Depreciation)	
	<u>Governmental Activities</u>	
	<u>2014</u>	<u>2013</u>
Land	\$ 103,182	\$ 103,182
Land improvements	158,920	176,781
Buildings and improvements	4,474,085	4,603,604
Furniture and equipment	290,595	189,247
Vehicles	<u>560,844</u>	<u>417,775</u>
Total	<u><u>\$ 5,587,626</u></u>	<u><u>\$ 5,490,589</u></u>

The overall increase in capital assets of \$97,037 is primarily due to capital outlays of \$415,370 exceeding depreciation expense of \$287,107 and disposals of \$31,226 (net of accumulated depreciation) in fiscal year 2014.

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

Debt Administration

At June 30, 2014, the District had \$2,185,000 in lease-purchase obligations. Of this amount, \$109,000 is due within one year and \$2,076,000 is due within greater than one year. The following table summarizes the debt outstanding at June 30, 2014 and June 30, 2013.

	Governmental	Governmental
	Activities	Activities
	<u>2014</u>	<u>2013</u>
Lease-purchase agreement	<u><u>\$ 2,185,000</u></u>	<u><u>\$ 2,289,000</u></u>

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(UNAUDITED)

Current Financial Related Activities

In fiscal year 2014, the District retained a positive operating cash flow for the fourth consecutive fiscal year. On a cash basis, revenues grew by 4.87% when compared with fiscal year 2013 revenues. The growth in revenue can be attributed to local revenue sources including the reimbursement from Townsend Community School, Open Enrollment from adjoining school districts, and Special Education reimbursement. Expenditures grew by 4.45% when compared with fiscal year 2013. The increase can be attributed to increases in salaries, community school open enrollment out, and capital outlay. Salaries increased with the implementation of a new collective bargaining agreement with the certified staff and a marginal increase for non-bargaining employees of the district. Community school open enrollment continues to increase, in part from students residing in the district and attending Townsend Community School. Overall, part choice has increased statewide community school enrollment. The district added a school bus and a van to the fleet to support the Townsend Community transportation services which has led to an increase in capital outlay in fiscal year 2014.

Townsend Community School continues to grow. Townsend has enrolled students from Columbus, Bucyrus, and Fostoria which has led to their enrollment ballooning to over 650 active students and 84 graduates in the 2013-14 school year. The District received over \$200,000 for facility lease payments, shared service fees, legal services incurred by the District and transportation services in fiscal year 2014. In addition, the District received \$88,945 for Sponsorship fee, statutory 3% of Townsend's ADM revenue; and \$20,000 toward the purchase of a van, \$78,000 toward the purchase of a bus, and \$38,834 for lease hold improvements. With the exception of transportation and lease hold improvements, the District has used their own operational capacity to generate the additional revenue. Townsend is preparing to build their own capacity by constructing an Educational Services Center adjacent to the High School. Townsend will lease the land area to support the construction. The facility will include a technology center that will be made available to the students. Construction will begin in the fall of 2014. It is anticipated that the facility will be open prior to the end of fiscal year 2015.

The State's General Assembly passed a bi-annual budget bill in June, 2013. For the first time since fiscal year 2004, the District is no longer on a basic aid guarantee effective fiscal year 2014. The State funding model changed the way that preschool is to be funded. Prior to fiscal year 2014, the State funding preschool using a unit or classroom method. In fiscal year 2014, preschool students are now included in the enrollment of all other residential students. This change in funding method has contributed to the district now being funded on the foundation formula for basic aid. State foundation unrestricted grant in aid funding grew by \$65,737 to a total of \$4,117,437. This was a 1.63% increase in State aid. The most financial significant portion of the state's budget is the treatment of the tangible personal property tax reimbursement funding source. The legislature agreed to suspend the phase out of this revenue source throughout the bi-annual budget period. The reimbursement began being phased out in the previous two fiscal years and intended to phase out completely by State fiscal year 2018. If the phase out were to continue, the District would be receiving less than \$1,000,000 by the end of fiscal year 2015. The budget bill was silent on the hold harmless provision as it relates to future years and the District's five-year forecast assumes that the phase out will resume again in fiscal year 2016.

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, Margaretta Local School District, 305 S. Washington Street, Castalia, Ohio 44824.

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

STATEMENT OF NET POSITION
JUNE 30, 2014

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents.	\$ 2,613,923
Receivables:	
Property taxes	6,089,003
Accounts.	132,528
Intergovernmental	130,767
Materials and supplies inventory.	8,524
Capital assets:	
Nondepreciable capital assets	103,182
Depreciable capital assets, net.	5,484,444
Capital assets, net	5,587,626
Total assets.	14,562,371
Liabilities:	
Accounts payable.	51,322
Accrued wages and benefits payable	944,330
Pension obligation payable.	233,064
Intergovernmental payable	131,128
Accrued interest payable	7,085
Long-term liabilities:	
Due within one year.	206,199
Due in more than one year.	2,726,408
Total liabilities	4,299,536
Deferred inflows of resources:	
Property taxes levied for the next fiscal year.	5,040,479
Net position:	
Net investment in capital assets	3,402,626
Restricted for:	
Capital projects	116,275
Locally funded programs	9,616
State funded programs.	3,044
Federally funded programs	17,253
Student activities	66,486
Unrestricted	1,607,056
Total net position.	\$ 5,222,356

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, 2014

	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position Governmental Activities
		Charges for Services and Sales	Operating Grants and Contributions	
Governmental activities:				
Instruction:				
Regular	\$ 4,653,645	\$ 983,848	\$ 54,777	\$ (3,615,020)
Special	1,912,715	217,397	761,148	(934,170)
Vocational	246,348	-	26,765	(219,583)
Other	1,049,849	-	-	(1,049,849)
Support services:				
Pupil	692,764	-	163,431	(529,333)
Instructional staff	756,699	-	39,454	(717,245)
Board of education	182,739	-	-	(182,739)
Administration	983,062	-	-	(983,062)
Fiscal	416,210	-	-	(416,210)
Operations and maintenance	1,187,432	468,914	-	(718,518)
Pupil transportation	1,043,228	-	55,075	(988,153)
Central	94,478	-	-	(94,478)
Operation of non-instructional services:				
Other non-instructional services	147,320	119,591	-	(27,729)
Food service operations	525,818	270,142	271,070	15,394
Extracurricular activities	468,192	213,664	-	(254,528)
Interest and fiscal charges	98,638	-	-	(98,638)
Total governmental activities	<u>\$ 14,459,137</u>	<u>\$ 2,273,556</u>	<u>\$ 1,371,720</u>	<u>(10,813,861)</u>
General revenues:				
Property taxes levied for:				
General purposes				5,273,927
Capital outlay				149,154
Grants and entitlements not restricted to specific programs				5,970,155
Investment earnings				2,544
Miscellaneous				<u>266,942</u>
Total general revenues				<u>11,662,722</u>
Change in net position				848,861
Net position at beginning of year				<u>4,373,495</u>
Net position at end of year				<u>\$ 5,222,356</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2014

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:			
Equity in pooled cash and cash equivalents.	\$ 2,382,878	\$ 231,045	\$ 2,613,923
Receivables:			
Property taxes.	5,921,154	167,849	6,089,003
Accounts	132,528	-	132,528
Interfund loans	2,100	-	2,100
Intergovernmental.	75,990	54,777	130,767
Materials and supplies inventory.	-	8,524	8,524
Total assets	<u>\$ 8,514,650</u>	<u>\$ 462,195</u>	<u>\$ 8,976,845</u>
Liabilities:			
Accounts payable	\$ 43,203	\$ 8,119	\$ 51,322
Accrued wages and benefits payable	867,661	76,669	944,330
Compensated absences payable	29,373	-	29,373
Interfund loans payable.	-	2,100	2,100
Intergovernmental payable	119,594	11,534	131,128
Pension obligation payable	213,666	19,398	233,064
Total liabilities.	<u>1,273,497</u>	<u>117,820</u>	<u>1,391,317</u>
Deferred inflows of resources:			
Property taxes levied for the next fiscal year.	4,901,867	138,612	5,040,479
Delinquent property tax revenue not available.	333,699	9,514	343,213
Intergovernmental revenue not available.	10,900	54,777	65,677
Total deferred inflows of resources	<u>5,246,466</u>	<u>202,903</u>	<u>5,449,369</u>
Fund balances:			
Nonspendable:			
Materials and supplies inventory.	-	8,524	8,524
Restricted:			
Capital improvements	-	106,761	106,761
Special education	-	8,048	8,048
Other purposes.	-	21,865	21,865
Extracurricular.	-	66,486	66,486
Assigned:			
Student instruction	1,922	-	1,922
Student and staff support.	87,683	-	87,683
Subsequent year's appropriations	155,016	-	155,016
Unassigned (deficit)	1,750,066	(70,212)	1,679,854
Total fund balances	<u>1,994,687</u>	<u>141,472</u>	<u>2,136,159</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 8,514,650</u>	<u>\$ 462,195</u>	<u>\$ 8,976,845</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, 2014

Total governmental fund balances		\$	2,136,159
<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.			5,587,626
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred inflows in the funds.			
Property taxes receivable	\$	343,213	
Intergovernmental receivable		<u>65,677</u>	
Total			408,890
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.			(7,085)
Long-term liabilities, including lease-purchase agreements, are not due and payable in the current period and therefore are not reported in the funds.			
Lease-purchase agreement		(2,185,000)	
Compensated absences		<u>(718,234)</u>	
Total			<u>(2,903,234)</u>
Net position of governmental activities		\$	<u>5,222,356</u>

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, 2014

	General	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:			
From local sources:			
Property taxes	\$ 5,303,183	\$ 150,004	\$ 5,453,187
Tuition	1,133,340	-	1,133,340
Earnings on investments	2,578	-	2,578
Charges for services	-	270,142	270,142
Extracurricular	119,591	189,159	308,750
Classroom materials and fees	67,905	-	67,905
Rental income	468,914	-	468,914
Contributions and donations	-	5,636	5,636
Contract services	24,505	-	24,505
Other local revenues	266,845	17,549	284,394
Intergovernmental - state	6,410,274	98,411	6,508,685
Intergovernmental - federal	35,865	789,113	824,978
Total revenues	13,833,000	1,520,014	15,353,014
Expenditures:			
Current:			
Instruction:			
Regular	4,436,112	90,820	4,526,932
Special	1,575,704	337,673	1,913,377
Vocational	221,394	-	221,394
Other	1,049,849	-	1,049,849
Support services:			
Pupil	534,405	158,026	692,431
Instructional staff	739,634	41,530	781,164
Board of education	182,378	361	182,739
Administration	970,535	-	970,535
Fiscal	408,348	2,953	411,301
Operations and maintenance	1,239,740	2,439	1,242,179
Pupil transportation	1,185,190	-	1,185,190
Central	86,378	8,100	94,478
Operation of non-instructional services:			
Other non-instructional services	146,978	-	146,978
Food service operations	-	526,364	526,364
Extracurricular activities	235,526	196,953	432,479
Facilities acquisition and construction	-	70,117	70,117
Debt service:			
Principal retirement	104,000	-	104,000
Interest and fiscal charges	98,975	-	98,975
Total expenditures	13,215,146	1,435,336	14,650,482
Excess of revenues over expenditures	617,854	84,678	702,532
Other financing sources (uses):			
Transfers in	-	3,759	3,759
Transfers (out)	(3,759)	-	(3,759)
Total other financing sources (uses)	(3,759)	3,759	-
Net change in fund balances	614,095	88,437	702,532
Fund balances at beginning of year	1,380,592	46,089	1,426,681
Increase in reserve for inventory	-	6,946	6,946
Fund balances at end of year	\$ 1,994,687	\$ 141,472	\$ 2,136,159

**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, 2014

Net change in fund balances - total governmental funds	\$	702,532
<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	\$ 415,370	
Current year depreciation	(287,107)	
Total		128,263
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net position.		
		(31,226)
Governmental funds report expenditures for inventory when purchased. However, in the statement of activities, they are reported as an expense when consumed.		
		6,946
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Property taxes	(30,106)	
Earnings on investments	(34)	
Intergovernmental	(14,876)	
Total		(45,016)
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. Principal payments during the year were:		
		104,000
In the statement of activities, interest is accrued on lease-purchase agreements, whereas in governmental funds, an interest expenditure is reported when due. The following item resulted in less interest being reported in the statement of activities:		
Decrease in accrued interest payable		337
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.		
Increase in compensated absences		(16,975)
Change in net position of governmental activities	\$	848,861

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, 2014

	<u>Budgeted Amounts</u>			Variance with Final Budget
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	Positive (Negative)
Revenues:				
From local sources:				
Property taxes	\$ 5,525,756	\$ 5,525,756	\$ 5,522,277	\$ (3,479)
Tuition.	917,151	917,151	1,133,340	216,189
Earnings on investments	2,000	2,000	2,433	433
Classroom materials and fees	38,000	38,000	67,905	29,905
Rental income	301,500	301,500	402,150	100,650
Contract services.	75,000	75,000	24,505	(50,495)
Other local revenues	225,100	225,100	266,845	41,745
Intergovernmental - state	6,189,117	6,189,117	6,370,862	181,745
Intergovernmental - federal	25,000	25,000	35,865	10,865
Total revenues	<u>13,298,624</u>	<u>13,298,624</u>	<u>13,826,182</u>	<u>527,558</u>
Expenditures:				
Current:				
Instruction:				
Regular	4,745,061	4,699,061	4,459,466	239,595
Special.	1,478,784	1,550,784	1,482,898	67,886
Vocational.	229,631	230,731	217,863	12,868
Other.	790,000	1,050,000	1,049,849	151
Support services:				
Pupil.	580,329	552,329	533,963	18,366
Instructional staff	732,678	801,678	787,384	14,294
Board of education	227,417	205,442	198,794	6,648
Administration.	1,004,714	1,004,714	975,404	29,310
Fiscal	415,005	426,005	411,671	14,334
Operations and maintenance.	1,310,301	1,303,301	1,288,270	15,031
Pupil transportation	1,293,256	1,298,256	1,248,930	49,326
Central.	72,333	112,333	80,551	31,782
Operation of non-instructional services:				
Other non-instructional services.	35,935	35,935	29,832	6,103
Extracurricular activities.	275,689	261,689	238,761	22,928
Debt service:				
Principal	104,000	104,000	104,000	-
Interest and fiscal charges.	98,975	98,975	98,975	-
Total expenditures	<u>13,394,108</u>	<u>13,735,233</u>	<u>13,206,611</u>	<u>528,622</u>
Excess (deficiency) of revenues over (under) expenditures.	<u>(95,484)</u>	<u>(436,609)</u>	<u>619,571</u>	<u>1,056,180</u>
Other financing sources (uses):				
Refund of prior year's expenditures	-	-	141	141
Transfers (out).	(25,000)	(19,000)	(3,759)	15,241
Advances (out)	-	(6,000)	(2,100)	3,900
Total other financing sources (uses)	<u>(25,000)</u>	<u>(25,000)</u>	<u>(5,718)</u>	<u>19,282</u>
Net change in fund balance	(120,484)	(461,609)	613,853	1,075,462
Fund balance at beginning of year	1,416,033	1,416,033	1,416,033	-
Prior year encumbrances appropriated	256,765	256,765	256,765	-
Fund balance at end of year	<u>\$ 1,552,314</u>	<u>\$ 1,211,189</u>	<u>\$ 2,286,651</u>	<u>\$ 1,075,462</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2014

	Private-Purpose Trust	
	Scholarship	Agency
Assets:		
Equity in pooled cash and cash equivalents	\$ 298,021	\$ 46,661
Receivables:		
Accrued interest.	141	-
Total assets.	\$ 298,162	\$ 46,661
Liabilities:		
Accounts payable.	\$ -	\$ 830
Due to students.	-	45,831
Total liabilities	-	\$ 46,661
Net position:		
Held in trust for scholarships	298,162	
Total net position.	\$ 298,162	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	Private-Purpose Trust
	Scholarship
Additions:	
Interest	\$ 302
Gifts and contributions	19,956
Total additions	20,258
Deductions:	
Scholarships awarded	23,780
Change in net position	(3,522)
Net position at beginning of year	301,684
Net position at end of year	\$ 298,162

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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 82 non-certified employees and 68 certified (including administrative) employees to provide services to approximately 1,242 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, 2014**

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. The amount paid in fiscal year 2014 was \$33,570. 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. The amount paid in fiscal year 2014 was \$12,019. 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, 2014

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, 2014

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

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets, 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, 2014

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 Inflows of Resources and Deferred Outflows of Resources - A deferred inflow of resources is an acquisition of net position by the District that is applicable to a future reporting period. A deferred outflow of resources is a consumption of net position by the District that is applicable to a future reporting period.

Property taxes for which there is an enforceable legal claim as of June 30, 2014, but which were levied to finance fiscal year 2015 operations, and other revenues received in advance of the fiscal year for which they were intended to finance, have been recorded as deferred inflows. Grants not received within the available period, grants and entitlements received before the eligibility requirements are met, and delinquent property taxes due at June 30, 2014, are recorded as deferred inflows on the governmental fund financial statements.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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

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.

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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

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.

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 2014, 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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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

The District has invested funds in STAR Ohio during fiscal year 2014. 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, 2014.

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 2014 amounted to \$2,578, which includes \$294 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.

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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

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:

Description	Governmental Activities <u>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 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.

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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

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.

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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

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 had no amounts restricted by enabling legislation.

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

N. Estimates

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

O. Interfund Activity

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

P. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2014.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2014, the District has implemented GASB Statement No. 70, "Accounting and Financial Reporting for Nonexchange Financial Guarantees".

GASB Statement No. 70 improves the recognition, measurement, and disclosures for state and local governments that have extended or received financial guarantees that are nonexchange transactions. The implementation of GASB Statement No. 70 did not have an effect on the financial statements of the District.

B. Deficit Fund Balances

Fund balances at June 30, 2014 included the following individual fund deficits:

<u>Nonmajor funds</u>	<u>Deficit</u>
Food service	\$ 4,888
Race to the top	3,030
IDEA Part-B	11,611
Title I - disadvantaged children	34,706
Improving teacher quality	7,453

The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances 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.

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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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.

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

A. Deposits with Financial Institutions

At June 30, 2014, the carrying amount of all District deposits, including \$775,025 in nonnegotiable certificates of deposit, was \$1,809,315. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2014, \$1,202,404 of the District's bank balance of \$1,384,529 was exposed to custodial risk as discussed below, while \$1,953,166 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, 2014, the District had the following investments and maturities:

	<u>Investment Maturities</u>	
<u>Investment type</u>	<u>Fair Value</u>	<u>6 months or less</u>
STAR Ohio	\$ 1,149,290	\$ 1,149,290

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.

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, 2014:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
STAR Ohio	\$ 1,149,290	100.00

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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, 2014:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 1,809,315
Investments	<u>1,149,290</u>
 Total	 <u>\$ 2,958,605</u>
 <u>Cash and investments per statement of net position</u>	
Governmental activities	\$ 2,613,923
Private purpose funds	298,021
Agency fund	<u>46,661</u>
 Total	 <u>\$ 2,958,605</u>

NOTE 5 - INTERFUND TRANSACTIONS

- A. Interfund transfers for the year ended June 30, 2014, 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>\$ 3,759</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.

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 5 - INTERFUND TRANSACTIONS - (Continued)

- B.** Interfund balances at June 30, 2014 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>
General fund	Nonmajor governmental funds	\$ <u>2,100</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, 2014 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 2014 represent the collection of calendar year 2013 taxes. Real property taxes received in calendar year 2014 were levied after April 1, 2013, on the assessed values as of January 1, 2013, 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 2014 represent the collection of calendar year 2013 taxes. Public utility real and personal property taxes received in calendar year 2014 became a lien on December 31, 2012, were levied after April 1, 2013, 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 and Sandusky Counties. The County Auditors periodically advance to the District its portion of the taxes collected. Second-half real property tax payments collected by the Counties by June 30, 2014, are available to finance fiscal year 2014 operations. The amount available as an advance at June 30, 2014 was \$685,588 in the general fund and \$19,723 in the permanent improvement fund (a nonmajor governmental fund). This amount is recorded as revenue. The amount available for advance at June 30, 2013 was \$904,682 in the general fund and \$26,032 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, 2014

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, 2014 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 2014 taxes were collected are:

	2013 Second Half Collections		2014 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 163,303,380	95.27	\$ 163,355,790	94.85
Public utility personal	<u>8,109,100</u>	<u>4.73</u>	<u>8,863,040</u>	<u>5.15</u>
Total	<u>\$ 171,412,480</u>	<u>100.00</u>	<u>\$ 172,218,830</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$63.85		\$63.85	

NOTE 7 - RECEIVABLES

Receivables at June 30, 2014 consisted of property taxes, accounts, 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	\$ 6,089,003
Accounts	132,528
Intergovernmental	<u>130,767</u>
Total	<u>\$ 6,352,298</u>

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 8 - CAPITAL ASSETS

A. Capital asset activity for the fiscal year ended June 30, 2014, was as follows:

Governmental activities:	Balance <u>06/30/13</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>06/30/14</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 103,182	\$ -	\$ -	\$ 103,182
Total capital assets, non being depreciated	<u>103,182</u>	<u>-</u>	<u>-</u>	<u>103,182</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	1,283,192	-	-	1,283,192
Building and improvements	8,943,425	30,038	-	8,973,463
Furniture and equipment	716,774	149,794	(25,726)	840,842
Vehicles	<u>1,360,711</u>	<u>235,538</u>	<u>(97,610)</u>	<u>1,498,639</u>
Total capital assets, being depreciated	<u>12,304,102</u>	<u>415,370</u>	<u>(123,336)</u>	<u>12,596,136</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(1,106,411)	(17,861)	-	(1,124,272)
Building and improvements	(4,339,821)	(159,557)	-	(4,499,378)
Furniture and equipment	(527,527)	(26,981)	4,261	(550,247)
Vehicles	<u>(942,936)</u>	<u>(82,708)</u>	<u>87,849</u>	<u>(937,795)</u>
Total accumulated depreciation	<u>(6,916,695)</u>	<u>(287,107)</u>	<u>92,110</u>	<u>(7,111,692)</u>
Governmental activities capital assets, net	<u>\$ 5,490,589</u>	<u>\$ 128,263</u>	<u>\$ (31,226)</u>	<u>\$ 5,587,626</u>

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 115,262
Special	1,576
<u>Support services:</u>	
Administration	9,641
Operations and maintenance	28,308
Pupil transportation	90,563
<u>Operation of non-instructional services:</u>	
Other non-instructional services	342
Extracurricular	35,713
Food service operations	<u>5,702</u>
Total depreciation expense	<u>\$ 287,107</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 9 - LEASE-PURCHASE AGREEMENT

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. The lease meets 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. The lease was used to fund the District's capital improvement project. Capital assets acquired by the lease-purchase have been capitalized in the amount of \$2,764,450. Accumulated depreciation at June 30, 2014 was \$311,001 leaving a book value of \$2,453,449. Lease-purchase payments have been reflected as debt service expenditures in the general fund. There was \$104,000 in principal payments in fiscal year 2014.

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, 2014.

Fiscal Year Ending <u>June 30,</u>	<u>Total</u>
2015	\$ 199,007
2016	198,323
2017	198,449
2018	197,385
2019	197,131
2020 - 2024	982,723
2025 - 2028	<u>968,868</u>
Total minimum lease payments	2,941,886
Less: amount representing interest	<u>(756,886)</u>
Present value of minimum lease payments	<u>\$ 2,185,000</u>

NOTE 10 - LONG-TERM OBLIGATIONS

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

	Balance Outstanding <u>06/30/13</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>06/30/14</u>	Amounts Due in <u>One Year</u>
Lease-purchase agreement	\$ 2,289,000	\$ -	\$ (104,000)	\$ 2,185,000	\$ 109,000
Compensated absences	<u>756,804</u>	<u>118,563</u>	<u>(127,760)</u>	<u>747,607</u>	<u>97,199</u>
Total governmental activities	<u>\$ 3,045,804</u>	<u>\$ 118,563</u>	<u>\$ (231,760)</u>	<u>\$ 2,932,607</u>	<u>\$ 206,199</u>

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

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

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, 2014, are a voted debt margin of \$15,499,695 and an unvoted debt margin of \$172,219.

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 lease payment is \$1,500 per month for the Castalia property and \$3,750 per month for the Vickery property. Included in the lease agreement is a provision to reimburse the District \$35,000 per year for maintenance of the leased area. The term of the lease is from August 1, 2012 through July 31, 2014. The lease agreement was amended as of August 1, 2013 to accommodate an expansion of the leased area within the high school and to account for the internet access to the Townsend Elementary building.

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.

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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 2013 the District has contracted with SORSA to provide insurance coverage in the following amounts:

<u>Limits of Coverage</u>	<u>Carrier</u>	<u>Coverage</u>	<u>Deductible</u>
General liability:			
Each occurrence	Indiana Insurance	\$ 4,000,000	\$ -
Aggregate		14,000,000	-
Fleet:			
Comprehensive	Indiana Insurance	\$12,000,000	-
Collision			-
Umbrella liability	Indiana Insurance	\$12,000,000	-
Building and contents	Indiana Insurance	\$47,793,698	-

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.

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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

NOTE 13 - RISK MANAGEMENT - (Continued)

C. OSBA Workers' Compensation Group Rating Plan

For fiscal year 2013, the District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (the "Plan"), an insurance purchasing pool (Note 2.A.). The intent of the Plan is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the Plan. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the Plan. Each participant pays its workers' compensation premium to the state based on the rate for the Plan rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the Plan.

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

NOTE 14 - PENSION PLANS

A. School Employees Retirement System

Plan Description - The District contributes to the School Employees Retirement System (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement, disability, survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under "Employers/Audit Resources".

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2014, 13.05 percent and 0.05 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 14 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contributions for pension obligations and death benefits to SERS for the fiscal years ended June 30, 2014, 2013 and 2012 were \$268,065, \$264,593 and \$255,006, respectively; 74.58 percent has been contributed for fiscal year 2014 and 100 percent for fiscal years 2013 and 2012.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 14 - PENSION PLANS - (Continued)

B. State Teachers Retirement System of Ohio

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

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

Funding Policy - For fiscal year 2014, plan members were required to contribute 11 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 14 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2014, 2013 and 2012 were \$655,207, \$640,615 and \$690,654, respectively; 83.51 percent has been contributed for fiscal year 2014 and 100 percent for fiscal years 2013 and 2012. Contributions to the DC and Combined Plans for fiscal year 2014 were \$1,264 made by the District and \$993 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS/STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2014 certain members of the Board of Education have elected Social Security. The District's liability is 6.2 percent of wages paid.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 15 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description - The District participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Section 3309.69 of the Ohio Revised Code. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B monthly premium for calendar year 2014 was \$104.90 for most participants, but could be as high as \$335.70 per month depending on their income and the SERS' reimbursement to retirees was \$45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under "Employers/Audit Resources".

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2014, 0.14 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2014, the actuarially determined amount was \$20,250.

Active members do not contribute to the postemployment benefit plans. The Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility and retirement status.

The District's contributions for health care (including surcharge) for the fiscal years ended June 30, 2014, 2013 and 2012 were \$33,089, \$33,351 and \$40,112, respectively; 74.58 percent has been contributed for fiscal year 2014 and 100 percent for fiscal years 2013 and 2012.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2014, this actuarially required allocation was 0.76 percent of covered payroll. The District's contributions for Medicare Part B for the fiscal years ended June 30, 2014, 2013, and 2012 were \$15,552, \$14,946 and \$15,059, respectively; 74.58 percent has been contributed for fiscal year 2014 and 100 percent for fiscal years 2013 and 2012.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

NOTE 15 - POSTEMPLOYMENT BENEFITS - (Continued)

B. State Teachers Retirement System of Ohio

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

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2014, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The District's contributions for health care for the fiscal years ended June 30, 2014, 2013 and 2012 were \$50,401, \$49,278 and \$53,127, respectively; 83.51 percent has been contributed for fiscal year 2014 and 100 percent for fiscal years 2013 and 2012.

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, 2014**

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	\$ 613,853
Net adjustment for revenue accruals	(112,773)
Net adjustment for expenditure accruals	52,204
Net adjustment for other financing sources/(uses)	1,959
Funds budgeted elsewhere	2,164
Adjustment for encumbrances	<u>56,688</u>
GAAP basis	<u>\$ 614,095</u>

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.

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 18 - SET-ASIDES - (Continued)

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, 2013	\$ -
Current year set-aside requirement	202,002
Current year qualifying expenditures	<u>(477,127)</u>
Total	<u>\$ (275,125)</u>
Balance carried forward to fiscal year 2015	<u>\$ -</u>
Set-aside balance June 30, 2014	<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>Fund</u>	<u>Year-End Encumbrances</u>
General	\$ 58,388
Nonmajor governmental funds	<u>93,587</u>
Total	<u>\$ 151,975</u>

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**SCHEDULE OF FEDERAL AWARD RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Federal CFDA Number	Receipts	Disbursements
UNITED STATES DEPARTMENT OF AGRICULTURE			
<i>Passed Through Ohio Department of Education</i>			
<u>Nutrition Cluster:</u>			
School Breakfast Program	10.553	\$34,285	\$34,285
National School Lunch Program			
Cash Assistance	10.555	191,730	191,730
Non-cash Assistance (Food Distribution)	10.555	34,038	34,038
<i>Total - National School Lunch Program</i>		<u>225,768</u>	<u>225,768</u>
Total United States Department of Agriculture		<u>260,053</u>	<u>260,053</u>
UNITED STATES DEPARTMENT OF EDUCATION			
<u>Special Education Cluster (IDEA):</u>			
<i>Passed Through North Point Educational Service Center</i>			
Special Education - Preschool Grants (IDEA Preschool)	84.173	8,611	8,611
<i>Passed Through Ohio Department of Education</i>			
Special Education - Grants to States (IDEA, Part B)	84.027	240,832	238,198
<i>Total - Special Education Cluster (IDEA)</i>		<u>249,443</u>	<u>246,809</u>
Title I Grants to Local Educational Agencies (Title I, Part A of the ESEA)	84.010	240,750	235,382
Improving Teacher Quality State Grants	84.367	42,230	42,166
ARRA - Race to the Top	84.395	35,035	36,694
Total United States Department of Education		<u>567,458</u>	<u>561,051</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE		<u>\$827,511</u>	<u>\$821,104</u>

The accompanying notes are an integral part of this schedule.

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - CHILD NUTRITION CLUSTER

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

NOTE C – FOOD DONATION PROGRAM

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

NOTE D - MATCHING REQUIREMENTS

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



Dave Yost • Auditor of State

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 44824-9263

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 Margaretta Local School District, Erie County, Ohio (the District) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 24, 2015.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the 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 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 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.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, 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 District's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State

Columbus, Ohio

March 24, 2015



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

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

To the Board of Education:

Report on Compliance for the Major Federal Program

We have audited Margaretta Local School District, Erie County, Ohio's (the District) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect the District's major federal program for the year ended June 30, 2014. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the District's major federal program.

Management's Responsibility

The District's Management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to opine on the District's compliance for the District's major federal program based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. 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 our audit provides a reasonable basis for our compliance opinion on the District's major program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on the Major Federal Program

In our opinion, Margaretta Local School District, Erie County, Ohio complied, in all material respects with the compliance requirements referred to above that could directly and materially affect its major federal program for the year ended June 30, 2014.

Report on Internal Control Over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing our compliance audit, we considered the District's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on each major federal program's compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not to the extent needed to opine on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program's applicable compliance requirement. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with federal program's applicable compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

This report only describes the scope of our internal control over compliance tests and the results of this testing based on OMB Circular A-133 requirements. Accordingly, this report is not suitable for any other purpose.



Dave Yost
Auditor of State

Columbus, Ohio

March 24, 2015

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2014**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unmodified
<i>(d)(1)(ii)</i>	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weaknesses reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unmodified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510(a)?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Child Nutrition Cluster: School Breakfast Program - CFDA #10.553, National School Lunch Program - CFDA #10.555
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

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

None

3. FINDINGS FOR FEDERAL AWARDS

None

This page intentionally left blank.



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
APRIL 7, 2015**