

Dave Yost • Auditor of State

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Margaretta Local School District, Erie County, Ohio (the District), as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the Margaretta Local School District, Erie County, Ohio, as of June 30, 2010, and the respective changes in financial position, thereof and the budgetary comparison for the General fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 15, 2011, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, as 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 have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements taken as a whole. The schedule of federal awards receipts and expenditures provides additional information required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The schedule of federal awards receipts and expenditures is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This schedule was subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information 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 information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Dave Yost
Auditor of State

March 15, 2011

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)

The management's discussion and analysis of the Margarett Local School District's ("the District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2010. 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 2010 are as follows:

- In total, net assets of governmental activities decreased \$164,381 which represents a 4.35% decrease from 2009.
- General revenues accounted for \$10,938,823 in revenue or 80.48% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$2,652,417 or 19.52% of total revenues of \$13,591,240.
- The District had \$13,755,621 in expenses related to governmental activities; only \$2,652,417 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 \$10,938,823 were not adequate to provide for these programs.
- The District's only major governmental fund is the general fund. The general fund had \$11,354,450 in revenues and \$11,710,346 in expenditures and other financing uses. During fiscal year 2010, the general fund's fund balance decreased \$355,896 from a fund deficit of \$123,306 to a fund deficit of \$479,202.

Using the Basic Financial Statements (BFS)

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

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

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2010?" The statement of net assets and the statement of activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)

of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

Reporting the District's Most Significant Funds

Fund Financial Statements

Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's major governmental fund is the general fund.

Governmental Funds

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

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private-purpose trust fund. The District also acts in a trustee capacity as an agent for individuals. These activities are reported in an agency fund. All of the District's fiduciary activities are reported in separate statements of fiduciary net assets and changes in fiduciary net assets. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)

The District as a Whole

The statement of net assets provides the perspective of the District as a whole. The table below provides a summary of the District's net assets at June 30, 2010 and June 30, 2009.

	Net Assets	
	Governmental Activities 2010	Governmental Activities 2009
<u>Assets</u>		
Current and other assets	\$ 7,672,358	\$ 7,491,193
Capital assets, net	<u>5,458,328</u>	<u>5,450,923</u>
Total assets	<u>13,130,686</u>	<u>12,942,116</u>
<u>Liabilities</u>		
Current liabilities	6,124,579	5,657,897
Long-term liabilities	<u>3,389,187</u>	<u>3,502,918</u>
Total liabilities	<u>9,513,766</u>	<u>9,160,815</u>
<u>Net Assets</u>		
Invested in capital assets, net or related debt	2,880,328	2,783,923
Restricted	431,708	452,340
Unrestricted	<u>304,884</u>	<u>545,038</u>
Total net assets	<u>\$ 3,616,920</u>	<u>\$ 3,781,301</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2010, the District's assets exceeded liabilities by \$3,616,920.

At year-end, capital assets represented 41.57% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2010, were \$2,880,328. 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.

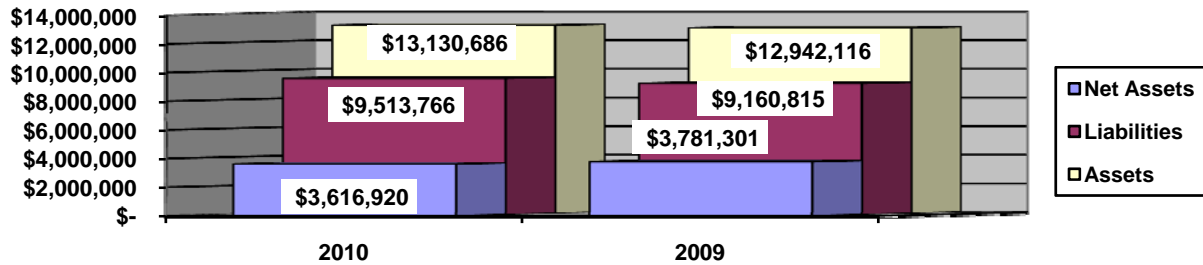
A portion of the District's net assets, \$431,708, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$304,884 may be used to meet the District's ongoing obligations to the students and creditors.

The graph below illustrates the governmental activities assets, liabilities and net assets at June 30, 2010 and June 30, 2009:

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)

Governmental Activities



The table below shows the change in net assets for fiscal years 2010 and 2009.

Change in Net Assets

	Governmental Activities 2010	Governmental Activities 2009
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 1,212,038	\$ 1,301,268
Operating grants and contributions	1,440,379	1,044,240
Capital grants and contributions	-	13,222
General revenues:		
Property taxes	4,548,435	5,361,764
Grants and entitlements	6,338,070	6,055,840
Investment earnings	6,807	66,768
Other	45,511	39,993
Total revenues	\$ 13,591,240	\$ 13,883,095

**MARGARETTA LOCAL SCHOOL DISTRICT
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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)

Change in Net Assets

	<u>Governmental Activities 2010</u>	<u>Governmental Activities 2009</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 5,259,311	\$ 5,133,429
Special	1,459,784	1,416,910
Vocational	266,087	319,245
Other	22,938	7,438
Support services:		
Pupil	755,121	714,992
Instructional staff	711,639	695,256
Board of education	179,904	167,593
Administration	950,178	1,029,963
Fiscal	405,832	437,120
Operations and maintenance	1,212,716	1,560,398
Pupil transportation	1,107,246	1,031,991
Central	68,802	64,420
Operation of non-instructional services:		
Other non-instructional services	168,275	227,718
Food service operations	602,192	539,050
Extracurricular activities	475,393	524,751
Interest and fiscal charges	<u>110,203</u>	<u>121,573</u>
Total expenses	<u>13,755,621</u>	<u>13,991,847</u>
Change in net assets	(164,381)	(108,752)
Net assets at beginning of year	<u>3,781,301</u>	<u>3,890,053</u>
Net assets at end of year	<u>\$ 3,616,920</u>	<u>\$ 3,781,301</u>

Governmental Activities

Net assets of the District's governmental activities decreased \$164,381. Total governmental expenses of \$13,755,621 were offset by program revenues of \$2,652,417 and general revenues of \$10,938,823. Program revenues supported 19.28% of the total governmental expenses.

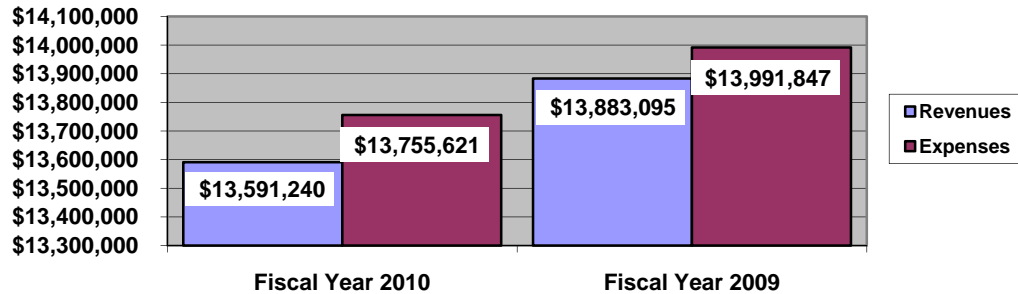
The primary sources of revenue for governmental activities are derived from property taxes and grants and entitlements. These two revenue sources represent 80.10% of total governmental revenue. Real estate property is reappraised every six years.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)

The graph below presents the District's governmental activities revenue and expenses for fiscal years 2010 and 2009.

Governmental Activities - Revenues and Expenses



The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services for fiscal years 2010 and 2009. 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 2010	Net Cost of Services 2010	Total Cost of Services 2009	Net Cost of Services 2009
Program expenses				
Instruction:				
Regular	\$ 5,259,311	\$ 4,427,899	\$ 5,133,429	\$ 4,614,439
Special	1,459,784	1,021,812	1,416,910	976,180
Vocational	266,087	240,027	319,245	293,379
Other	22,938	22,938	7,438	7,438
Support services:				
Pupil	755,121	521,425	714,992	545,617
Instructional staff	711,639	633,240	695,256	619,523
Board of education	179,904	179,904	167,593	167,593
Administration	950,178	943,109	1,029,963	1,024,963
Fiscal	405,832	405,832	437,120	437,120
Operations and maintenance	1,212,716	1,163,433	1,560,398	1,534,166
Pupil transportation	1,107,246	1,060,003	1,031,991	972,074
Central	68,802	68,802	64,420	64,420
Operations of non-instructional services				
Non-instructional services	168,275	53,172	227,718	79,995
Food service operations	602,192	(14,253)	539,050	(99,673)
Extracurricular activities	475,393	265,658	524,751	274,310
Interest and fiscal charges	110,203	110,203	121,573	121,573
Total expenses	<u>\$ 13,755,621</u>	<u>\$ 11,103,204</u>	<u>\$ 13,991,847</u>	<u>\$ 11,633,117</u>

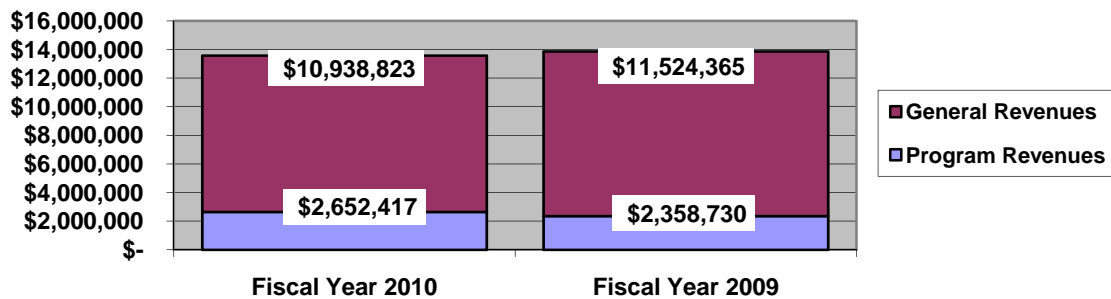
**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)**

The dependence upon tax and other general revenues for governmental activities is apparent, 81.52% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 80.72%. 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 2010 and 2009.

Governmental Activities - General and Program Revenues



The District's Funds

The District's governmental funds reported a combined fund deficit of \$367,632, which is less than last year's total of \$84,999. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2010 and June 30, 2009.

	Fund Balance (Deficit) <u>June 30, 2010</u>	Fund Balance (Deficit) <u>June 30, 2009</u>	<u>Decrease</u>
General	\$ (479,202)	\$ (123,306)	\$ (355,896)
Other Governmental	<u>111,570</u>	<u>208,305</u>	<u>(96,735)</u>
Total	<u>\$ (367,632)</u>	<u>\$ 84,999</u>	<u>\$ (452,631)</u>

General Fund

The District's general fund balance decreased \$355,896 from a fund deficit of \$123,306 to a fund deficit of \$479,202.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)

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

	2010 <u>Amount</u>	2009 <u>Amount</u>	Increase/ <u>(Decrease)</u>	Percentage <u>Change</u>
<u>Revenues</u>				
Taxes	\$ 4,350,768	\$ 4,872,491	\$ (521,723)	(10.71) %
Tuition	448,021	423,721	24,300	5.73 %
Earnings on investments	8,428	83,676	(75,248)	(89.93) %
Classroom materials and fees	48,041	57,528	(9,487)	(16.49) %
Intergovernmental	6,385,955	6,259,149	126,806	2.03 %
Other revenues	<u>113,237</u>	<u>88,740</u>	<u>24,497</u>	27.61 %
Total	<u>\$ 11,354,450</u>	<u>\$ 11,785,305</u>	<u>\$ (430,855)</u>	(3.66) %
<u>Expenditures</u>				
Instruction	\$ 6,254,062	\$ 6,571,532	\$ (317,470)	(4.83) %
Support services	4,892,135	5,218,516	(326,381)	(6.25) %
Operation of non-instructional services	20,981	15,426	5,555	36.01 %
Extracurricular activities	261,557	269,966	(8,409)	(3.11) %
Debt service	<u>199,770</u>	<u>112,647</u>	<u>87,123</u>	77.34 %
Total	<u>\$ 11,628,505</u>	<u>\$ 12,188,087</u>	<u>\$ (559,582)</u>	(4.59) %

Overall revenues of the general fund decreased \$430,855 or 3.66%. The most significant decreases were in the areas of taxes and earnings on investments. Tax revenue decreased \$521,723 or 10.71% mainly due to the phase out of tangible personal property taxes. Earnings on investments decreased \$75,248 or 89.93%. This decrease can be attributed to less money to invest and declining interest rates during fiscal year 2010.

Intergovernmental revenue increased \$126,806 or 2.03% from the prior year. This increase is attributed to an increase in federal funding. Tuition revenue increased \$24,300 or 5.73% mainly due to an increase in open enrollment throughout the District.

Overall expenditures of the general fund decreased \$559,582 or 4.59%. The most significant decreases were in the areas of instruction and support services. Instruction and support services decreased \$317,470 and \$326,381, respectively. These decreases can mainly be attributed the District's tight control on wages and benefits.

General Fund Budgeting Highlights

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

During the course of fiscal year 2010, the District amended its general fund budgeted revenues. For the general fund, final budgeted revenues were \$11,210,482, which was lower than the original budgeted revenues of \$11,363,342. Actual revenues and other financing sources for fiscal year 2010 were \$11,337,990. This represents a \$127,508 increase from final budgeted revenues and other financing sources.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)**

General fund original appropriations (appropriated expenditures plus other financing uses) of \$11,590,109 were increased to \$11,684,065 in the final budget. The actual budget basis expenditures and other financing uses for fiscal year 2010 totaled \$11,868,658, which was \$184,593 greater than the final budget appropriations.

The majority of the difference in the budget versus actual for tuition revenue and regular instruction expenditures was due to an audit adjustment made to these two accounts when preparing the GAAP financial statements to properly record tuition revenue and corresponding expense at gross rather than at net.

Capital Assets

At the end of fiscal year 2010, the District had \$5,458,328 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, 2010 and June 30, 2009:

	Capital Assets at June 30 (Net of Depreciation)	
	<u>Governmental Activities</u>	
	<u>2010</u>	<u>2009</u>
Land	\$ 103,182	\$ 103,182
Land improvements	236,836	259,957
Buildings and improvements	4,494,622	4,479,666
Furniture and equipment	183,955	164,482
Vehicles	<u>439,733</u>	<u>443,636</u>
Total	<u>\$ 5,458,328</u>	<u>\$ 5,450,923</u>

The overall increase in capital assets of \$7,405 is primarily due to total capital outlays of \$287,898 exceeding depreciation expense of \$259,783 and disposals of \$20,710 (net of accumulated depreciation) for fiscal year 2010.

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

Debt Administration

At June 30, 2010, the District had \$2,578,000 in lease-purchase obligations. Of this amount, \$93,000 is due within one year and \$2,485,000 is due within greater than one year. The following table summarizes the debt outstanding at June 30, 2010 and June 30, 2009.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)

Outstanding Debt, at Year End

	Governmental Activities 2010	Governmental Activities 2009
Lease-purchase agreement	\$ 2,578,000	\$ 2,667,000
Total	\$ 2,578,000	\$ 2,667,000

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

Current Financial Related Activities

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

The State legislature impacted our business tax base by the phasing out of the tangible personal property tax during the past 2 years. The District continues to look at ways to reduce the operational expense while maintaining educational success. During fiscal year 2009, the District finished its consolidation of facilities for the purpose of becoming more efficient. The District borrowed \$2,667,000 from the Ohio Association of School Business Officials (OASBO) Risk Sharing Pool Lease Purchase instrument to make the necessary capital improvements to facilitate the consolidation. The District began making principal payments on this debt during fiscal year 2010. The anticipated operational savings from the consolidation is in excess of \$500,000 annually. The net savings, after debt service, is anticipated to be in excess of \$300,000 and growing on an annual basis.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Mr. Jude Hammond, Treasurer, Margarett Local School District, 305 S. Washington Street, Castalia, Ohio 44824.

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

STATEMENT OF NET ASSETS
JUNE 30, 2010

	<u>Governmental Activities</u>
Assets:	
Equity in pooled cash and cash equivalents. . .	\$ 563,925
Cash with escrow agent.	28
Receivables:	
Taxes	6,704,195
Intergovernmental	399,002
Materials and supplies inventory.	5,208
Capital assets:	
Land	103,182
Depreciable capital assets, net.	5,355,146
Total capital assets, net.	<u>5,458,328</u>
Total assets.	<u>13,130,686</u>
Liabilities:	
Accounts payable.	86,547
Accrued wages and benefits	1,232,423
Pension obligation payable.	340,508
Intergovernmental payable	107,750
Accrued interest payable	8,359
Unearned revenue	4,348,992
Long-term liabilities:	
Due within one year.	250,293
Due in more than one year	3,138,894
Total liabilities	<u>9,513,766</u>
Net Assets:	
Invested in capital assets, net of related debt.	2,880,328
Restricted for:	
Capital projects	208,835
Locally funded programs	12,329
State funded programs.	14,329
Federally funded programs	100,709
Student activities	64,938
Public school support	30,568
Unrestricted.	<u>304,884</u>
Total net assets	<u>\$ 3,616,920</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities	
Governmental activities:				
Instruction:				
Regular	\$ 5,259,311	\$ 496,062	\$ 335,350	\$ (4,427,899)
Special	1,459,784		437,972	(1,021,812)
Vocational	266,087		26,060	(240,027)
Other	22,938			(22,938)
Support services:				
Pupil	755,121		233,696	(521,425)
Instructional staff	711,639		78,399	(633,240)
Board of education	179,904			(179,904)
Administration	950,178		7,069	(943,109)
Fiscal	405,832			(405,832)
Operations and maintenance	1,212,716	48,238	1,045	(1,163,433)
Pupil transportation	1,107,246	75	47,168	(1,060,003)
Central	68,802			(68,802)
Operation of non-instructional services:				
Other non-instructional services	168,275	115,103		(53,172)
Food service operations	602,192	344,425	272,020	14,253
Extracurricular activities	475,393	208,135	1,600	(265,658)
Interest and fiscal charges	110,203			(110,203)
Totals	\$ 13,755,621	\$ 1,212,038	\$ 1,440,379	(11,103,204)
 General Revenues:				
Property taxes levied for:				
General purposes				4,385,588
Capital outlay				162,847
Grants and entitlements not restricted to specific programs				6,338,070
Investment earnings				6,807
Miscellaneous				45,511
Total general revenues				10,938,823
Change in net assets				(164,381)
Net assets at beginning of year				3,781,301
Net assets at end of year				\$ 3,616,920

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2010

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:			
Equity in pooled cash and cash equivalents . . .	\$ 109,830	\$ 454,095	\$ 563,925
Cash with escrow agent.		28	28
Receivables:			
Taxes	6,493,860	210,335	6,704,195
Intergovernmental	398	398,604	399,002
Advance to other funds	50,000		50,000
Due from other funds	214,154		214,154
Materials and supplies inventory.		5,208	5,208
Total assets	<u>\$ 6,868,242</u>	<u>\$ 1,068,270</u>	<u>\$ 7,936,512</u>
Liabilities:			
Accounts payable	\$ 43,524	\$ 43,023	\$ 86,547
Accrued wages and benefits.	1,074,374	158,049	1,232,423
Compensated absences payable	98,082		98,082
Pension obligation payable	293,863	46,645	340,508
Intergovernmental payable	101,014	6,736	107,750
Advance from other funds		50,000	50,000
Due to other funds		214,154	214,154
Deferred revenue	1,529,556	296,132	1,825,688
Unearned revenue.	4,207,031	141,961	4,348,992
Total liabilities.	<u>7,347,444</u>	<u>956,700</u>	<u>8,304,144</u>
Fund Balances:			
Reserved for encumbrances.	111,858	41,733	153,591
Reserved for materials and supplies inventory		5,208	5,208
Reserved for loans	50,000		50,000
Reserved for property tax unavailable for appropriation.	606,789	21,636	628,425
Unreserved, undesignated (deficit), reported in:			
General fund.	(1,247,849)		(1,247,849)
Special revenue funds		(44,421)	(44,421)
Capital projects funds		87,414	87,414
Total fund balance (deficit)	<u>(479,202)</u>	<u>111,570</u>	<u>(367,632)</u>
Total liabilities and fund balances	<u>\$ 6,868,242</u>	<u>\$ 1,068,270</u>	<u>\$ 7,936,512</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2010

Total governmental fund balances		\$ (367,632)
<i>Amounts reported for governmental activities on the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		5,458,328
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Taxes receivable	\$ 1,573,483	
Intergovernmental receivable	<u>252,205</u>	
Total		1,825,688
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.		(8,359)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.		
Lease-purchase agreement	2,578,000	
Compensated absences payable	<u>713,105</u>	
Total		<u>(3,291,105)</u>
Net assets of governmental activities		<u><u>\$ 3,616,920</u></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, 2010

	General	Other Governmental Funds	Total Governmental Funds
Revenues:			
From local sources:			
Taxes	\$ 4,350,768	\$ 161,916	\$ 4,512,684
Tuition	448,021		448,021
Charges for services		345,823	345,823
Earnings on investments	8,428	28	8,456
Extracurricular		302,427	302,427
Classroom materials and fees	48,041		48,041
Rental income	46,915		46,915
Contributions and donations		1,600	1,600
Services provided to other entities	20,811		20,811
Other local revenues	45,511	94	45,605
Intergovernmental - state	6,365,063	82,486	6,447,549
Intergovernmental - federal	20,892	1,218,476	1,239,368
Total revenues	11,354,450	2,112,850	13,467,300
Expenditures:			
Current:			
Instruction:			
Regular	4,880,602	377,805	5,258,407
Special	1,084,435	372,817	1,457,252
Vocational	266,087		266,087
Other	22,938		22,938
Support services:			
Pupil	520,852	233,902	754,754
Instructional staff	607,631	102,493	710,124
Board of education	179,472	432	179,904
Administration	949,140		949,140
Fiscal	403,804	3,089	406,893
Operations and maintenance	1,168,404	2,287	1,170,691
Pupil transportation	994,024	129	994,153
Central	68,808		68,808
Operation of non-instructional services:			
Other non-instructional services	20,981	146,955	167,936
Food service operations		595,437	595,437
Extracurricular activities	261,557	175,408	436,965
Facilities acquisition and construction		281,234	281,234
Debt service:			
Principal retirement	89,000		89,000
Interest and fiscal charges	110,770		110,770
Total expenditures	11,628,505	2,291,988	13,920,493
Excess of expenditures over revenues	(274,055)	(179,138)	(453,193)
Other financing sources (uses):			
Transfers in		81,841	81,841
Transfers (out)	(81,841)		(81,841)
Total other financing sources (uses)	(81,841)	81,841	
Net change in fund balances	(355,896)	(97,297)	(453,193)
Fund balance (deficit) at beginning of year	(123,306)	208,305	84,999
Increase in reserve for inventory		562	562
Fund balance (deficit) at end of year	\$ (479,202)	\$ 111,570	\$ (367,632)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

Net change in fund balances - total governmental funds	\$	(453,193)
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Government funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense in the current period.		
Capital asset additions	\$ 287,898	
Current year depreciation	<u>(259,783)</u>	
Total		28,115
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net assets.		
		(20,710)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Taxes	35,751	
Earnings on investments	(1,649)	
Intergovernmental	<u>90,236</u>	
Total		124,338
Repayment of lease-purchase principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		
		89,000
In the statement of activities, interest is accrued on lease purchase agreements, whereas in governmental funds, an interest expenditure is reported when due. This resulted in less interest being reported in the statement of activities.		
		567
Governmental funds report expenditures for inventory when purchased. However, in the statement of activities they are reported as an expense when consumed.		
		562
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.		
		<u>66,940</u>
Change in net assets of governmental activities	\$	<u>(164,381)</u>

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, 2010

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
From local sources:				
Taxes	\$ 4,409,968	\$ 4,351,979	\$ 4,301,181	\$ (50,798)
Tuition	36,040	30,000	448,021	418,021
Earnings on investments	50,113	50,000	8,390	(41,610)
Classroom materials and fees	55,648	55,000	48,041	(6,959)
Rental income	42,133	41,500	46,915	5,415
Services provided to other entities	22,781	22,500	20,811	(1,689)
Other local revenues	36,129	35,500	46,646	11,146
Intergovernmental - state	6,710,249	6,624,003	6,396,999	(227,004)
Intergovernmental - federal	282		20,892	20,892
Total revenues	11,363,342	11,210,482	11,337,896	127,414
Expenditures:				
Current:				
Instruction:				
Regular	4,431,376	4,660,376	4,910,414	(250,038)
Special	1,094,532	1,063,532	1,060,449	3,083
Vocational	268,354	273,054	268,369	4,685
Other	7,442	22,942	22,938	4
Support services:				
Pupil	527,432	527,432	522,454	4,978
Instructional staff	608,364	620,364	614,968	5,396
Board of education	198,029	211,029	204,729	6,300
Administration	988,349	966,349	960,348	6,001
Fiscal	400,406	405,406	397,687	7,719
Operations and maintenance	1,450,989	1,280,040	1,269,232	10,808
Pupil transportation	977,614	1,009,014	1,004,192	4,822
Central	69,100	69,400	69,257	143
Operation of non-instructional services	20,949	21,224	20,132	1,092
Extracurricular activities	270,983	269,713	261,878	7,835
Debt service:				
Principal retirement	89,000	89,000	89,000	
Interest and fiscal charges	112,192	112,192	110,770	1,422
Total expenditures	11,515,109	11,601,065	11,786,817	(185,752)
Excess of expenditures over revenues	(151,767)	(390,583)	(448,921)	(58,338)
Other financing sources (uses):				
Refund of prior year's expenditures			94	94
Transfers (out)	(75,000)	(83,000)	(81,841)	1,159
Total other financing sources (uses)	(75,000)	(83,000)	(81,747)	1,253
Net change in fund balance	(226,767)	(473,583)	(530,668)	(57,085)
Fund balance at beginning of year	611,440	611,440	611,440	
Prior year encumbrances appropriated	119,233	119,233	119,233	
Fund balance at end of year	\$ 503,906	\$ 257,090	\$ 200,005	\$ (57,085)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2010

	Private Purpose Trust	
	Scholarship	Agency
Assets:		
Equity in pooled cash and cash equivalents	\$ 340,405	\$ 32,452
Receivables:		
Accrued interest.	242	
Total assets.	340,647	\$ 32,452
Liabilities:		
Accounts payable.		\$ 1,006
Due to students.		31,446
Total liabilities		\$ 32,452
Net assets:		
Held in trust for scholarships	340,647	
Total net assets	\$ 340,647	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	Private Purpose Trust
	Scholarship
Additions:	
Interest.	\$ 3,185
Gifts and contributions.	19,493
	<u>22,678</u>
Total additions.	<u>22,678</u>
Deductions:	
Scholarships awarded	26,636
	<u>26,636</u>
Change in net assets.	(3,958)
Net assets at beginning of year	<u>344,605</u>
Net assets at end of year.	<u>\$ 340,647</u>

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, 2010

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

The Margarettta Local School District (the "District") operates under a locally-elected five-member Board form of government and provides educational services mandated by State and/or federal agencies. Located in Erie County, the District serves the Village of Castalia and surrounding townships.

The District is organized under Sections 2 and 3, Article VI of the Constitution of the State of Ohio. Under such laws there is no authority for a District to have a charter or adopt local laws. The legislative power of the District is vested in the Board of Education, consisting of five members elected at large for staggered four-year terms.

The District is the 410th largest in the State of Ohio among 905 public and community schools in terms of enrollment. It currently operates 1 elementary school and 1 high school. The District employs 82 non-certified employees and 98 certified (including administrative) employees to provide services to approximately 1,278 students.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units". The reporting entity is composed of the primary government and component units. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, food service, community services and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's Governing Board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Certain organizations are also included as component units if the nature and significance of the relationship between the primary government and the organization is such that exclusion by the primary government would render the primary governments 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, 2010

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 or 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 2010 was \$62,310. Financial information can be obtained by contacting the North Point Educational Service Center, which serves as fiscal agent, at 2900 South Columbus Avenue, Sandusky, Ohio 44870.

Northern Ohio Educational Computer Association

The Northern Ohio Educational Computer Association (NOECA) is a jointly governed organization, which is a computer consortium. NOECA is an association of 41 public school districts formed for the purpose of applying modern technology (with the aid of computers and other electronic equipment) to administrative and instructional functions among member school district. The NOECA Board of Directors consists of two representatives from each county in which participating school districts are located, the chairman of each of the operating committees, and a representative from the fiscal agent. The amount paid in fiscal year 2010 was \$12,643. Financial information can be obtained from Betty Schwiefert, who serves as Controller, 2900 South Columbus Avenue, Sandusky, Ohio 44870.

PUBLIC ENTITY RISK POOLS

Workers' Compensation Group Rating Program

The District participates in the Ohio Association of School Business Officials (OASBO) Workers' Compensation Group Rating Program (GRP). The GRP is sponsored by OASBO 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 person. It is intended to provide liability and property insurance at reduced premiums for the participants. SORSA is organized as a nonprofit corporation under provisions of Ohio Revised Code 2744.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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 14 districts. The Association assembly consists of a superintendent or designated representative from each participating district and the program administrator. The Association is governed by a Board of Directors chosen from the general membership. The degree of control exercised by any participating district is limited to its representation on the Board. Financial information can be obtained by contacting the program administrator at the Huron-Erie School Employees Insurance Association, located at 2900 Columbus Avenue, Sandusky, Ohio 44870.

B. Fund Accounting

The District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

GOVERNMENTAL FUNDS

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following is the District's major governmental fund:

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

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

PROPRIETARY FUNDS

Proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector. The District has no proprietary funds.

FIDUCIARY FUNDS

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The District's trust funds are private-purpose trusts which account for scholarship programs for students. Agency funds are custodial in nature (assets equal liabilities) and do not involve

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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

measurement of results of operations. The District's agency fund accounts for student activities.

C. Measurement Focus

Government-wide Financial Statements - The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the primary government, except fiduciary funds, are included on the statement of net assets.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the District. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include amounts paid by the recipient of goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues of the District.

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

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

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

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

D. Basis of Accounting

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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

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.

Unearned Revenue and Deferred Revenue - Unearned revenue and deferred revenue arise when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of June 30, 2010, but which were levied to finance fiscal year 2011 operations, and other revenues received in advance of the fiscal year for which they are intended to finance, have been recorded as unearned revenue. Grants and entitlements received before the eligibility requirements are met and delinquent property taxes due at June 30, 2010 are recorded as deferred revenue on the governmental fund financial statements.

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

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The entitlement value of donated commodities received during the year is reported in the statement of revenues, expenditures and changes in fund balances as an expenditure with a like amount reported as intergovernmental revenue.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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

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, 2010

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. For governmental fund types, encumbrances outstanding at year end appear as a reserve to the fund balance on a GAAP basis and as the equivalent of expenditures on a non-GAAP budgetary basis in order to demonstrate legal compliance. Note 15 provides a reconciliation of the budgetary and GAAP basis of accounting.

F. Cash and Investments

To improve cash management, cash received by the District is pooled in a central bank account. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "equity in pooled cash and cash equivalents" on the basic financial statements.

During fiscal year 2010, 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, 2010

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

The District has invested funds in STAR Ohio during fiscal year 2010. 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, 2010.

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 2010 amounted to \$8,428, which includes \$4,710 assigned from other funds.

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

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

G. Inventory

On government-wide financial statements, purchased inventories are presented at the lower of cost or market and donated commodities are presented at their entitlement value. Inventories are recorded on a first-in, first-out basis and are expensed when used, or the fund financial statements inventories are reported at cost. Inventories are accounted for using the purchase method on the fund financial statements and using the consumption method on the government-wide financial statements.

On the fund financial statements, reported material and supplies inventory is equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of net current assets.

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

H. Capital Assets

General capital assets are those assets specifically related to activities reported in the governmental funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets, but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and deductions during the year. Donated capital assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$5,000. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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:

<u>Description</u>	Governmental Activities <u>Estimated Lives</u>
Land improvements	20 years
Buildings and improvements	20 - 40 years
Furniture and equipment	5 - 20 years
Vehicles	6 - 10 years

I. Interfund Balances

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

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

J. Compensated Absences

Compensated absences of the District consist of vacation leave and sick leave to the extent that payments to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the District and the employee.

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at the balance sheet date, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

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

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

K. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year.

L. Fund Balance Reserves

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, loans, property taxes unavailable for appropriation, and materials and supplies inventory. The reserve for property taxes unavailable for appropriation represents taxes recognized as revenue under GAAP, but not available for appropriation under State statute.

M. Net Assets

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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

N. Estimates

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

O. Interfund Activity

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

P. 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 2010.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2010, the District has implemented GASB Statement No. 51, "Accounting and Financial Reporting for Intangible Assets", GASB Statement No. 53, "Accounting and Financial Reporting for Derivative Instruments", and GASB Statement No. 58, "Accounting and Financial Reporting for Chapter 9 Bankruptcies".

GASB Statement No. 51 addresses accounting and financial reporting standards for intangible assets, which are assets that lack physical substance, are nonfinancial in nature, and have an initial useful life extending beyond a single reporting period. Examples of intangible assets include easements, water rights, computer software, patents, and trademarks. GASB Statement No. 51 improves the quality of financial reporting by creating consistency in the recognition, initial measurement, and amortization of intangible assets. The implementation of GASB Statement No. 51 did not have an effect on the financial statements of the District.

GASB Statement No. 53 addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. Derivative instruments are financial arrangements used by governments to manage specific risks or to make investments. Common types of derivative instruments include interest rate and commodity swaps, interest rate locks, options, swaptions, forward contracts, and futures contracts. The implementation of GASB Statement No. 53 did not have an effect on the financial statements of the District.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

GASB Statement No. 58 establishes accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. GASB Statement No. 58 requires governments to remeasure liabilities that are adjusted in bankruptcy when the bankruptcy court confirms a new payment plan. The implementation of GASB Statement No. 58 did not have an effect on the financial statements of the District.

B. Deficit Fund Balances

Fund balances at June 30, 2010 included the following individual fund deficits:

<u>Major fund</u>	<u>Deficit</u>
General fund	\$ 479,202
 <u>Nonmajor funds</u>	
Data communications grant	5,861
Title VI-B	106,658
Title I	48,112
Classroom reduction	17,787
Building	49,972

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

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, 2010

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, 2010

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

A. Cash with Escrow Agent

At fiscal year end, the District had \$28 on deposit in escrow accounts related to the lease-purchase agreement described in Note 9. This amount is included in the total amount of deposits reported below; however, this amount is not part of the internal cash pool and, therefore, is reported separately on the financial statements as “cash with escrow agent”.

B. Cash on Hand

At fiscal year end, the District had \$340 in undeposited cash on hand which is included on the financial statements of the District as part of “equity in pooled cash and cash equivalents”.

C. Deposits with Financial Institutions

At June 30, 2010, the carrying amount of all District deposits was \$822,014. Based on the criteria described in GASB Statement No. 40, “Deposits and Investment Risk Disclosures”, as of June 30, 2010, \$264,000 of the District’s bank balance of \$864,508 was exposed to custodial risk as discussed below, while \$600,508 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.

D. Investments

As of June 30, 2010, the District had the following investments and maturities:

	Investment Maturities	
Investment type	Fair Value	6 months or less
STAR Ohio	\$ 114,428	\$ 114,428

Interest Rate Risk: The Ohio Revised Code generally limits security purchases to those that mature within five years of the settlement date. It is the District’s policy to evaluate market conditions, interest rate forecasts, and cash flow requirements to consider the term of an investment, with the goal being to buy where relative value exists along the maturity spectrum.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Credit Risk: STAR Ohio has been given an AAAM rating by Standard and Poor's. The District has no investment policy dealing with investment credit risk beyond the requirements in state statutes. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District has no investment policy dealing with investment custodial risk beyond the requirements in ORC 135.14 (M)(2) which states, "Payment for investments shall be made only upon the delivery of securities representing such investments to the treasurer, investing authority, or qualified trustee. If the securities transferred are not represented by a certificate, payment shall be made only upon receipt of confirmation of transfer from the custodian by the treasurer, governing board, or qualified trustee."

Concentration of Credit Risk: The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2010:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
STAR Ohio	\$ 114,428	100.00

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

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net assets as of June 30, 2010:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 822,014
Cash with escrow agent	28
Investments	114,428
Cash on hand	<u>340</u>
Total	<u>\$ 936,810</u>
 <u>Cash and investments per statement of net assets</u>	
Governmental activities	\$ 563,953
Private-purpose trust funds	340,405
Agency fund	<u>32,452</u>
Total	<u>\$ 936,810</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 5 - INTERFUND TRANSACTIONS

- A. Interfund balances at June 30, 2010 as reported on the fund statements, consist of the following amounts due to/from other funds:

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
General	Nonmajor governmental funds	<u>\$214,154</u>

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

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

- B. Interfund transfers for the year ended June 30, 2010, consisted of the following, as reported on the fund financial statements:

<u>Transfers to nonmajor governmental funds from:</u>	<u>Amount</u>
General fund	<u>\$ 81,841</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, and (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Interfund transfers between governmental funds are eliminated for reporting in the statement of activities.

All transfers made in fiscal year 2010 were in accordance with Ohio Revised Code Sections 5705.14, 5705.15 and 5705.16.

- C. Long-term advances to/from other funds at June 30, 2010 as reported on the fund statements, consisted of the following:

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

The primary purpose of the advances is to cover costs in specific funds where revenues were not received by June 30, 2010. These advances will be repaid once anticipated revenues are received. All long-term advances are not expected to be repaid within one year.

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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, public utility property, and certain tangible personal (used in business) property located in the District. Real property tax revenues received in calendar year 2010 represent the collection of calendar year 2009 taxes. Real property taxes received in calendar year 2010 were levied after April 1, 2009, on the assessed values as of January 1, 2009, 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 2010 represent the collection of calendar year 2009 taxes. Public utility real and tangible personal property taxes received in calendar year 2010 became a lien on December 31, 2008, were levied after April 1, 2009, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax revenues received in calendar year 2010 (other than public utility property) represent the collection of calendar year 2010 taxes levied against local and inter-exchange telephone companies. Tangible personal property taxes received from telephone companies in calendar year 2010 were levied after October 1, 2009, on the value as of December 31, 2009. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

The District receives property taxes from Erie County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2010, are available to finance fiscal year 2010 operations. The amount available as an advance at June 30, 2010 was \$606,789 in the general fund and \$21,636 in the permanent improvement fund (a nonmajor governmental fund). This amount is recorded as revenue. The amount available for advance at June 30, 2009 was \$563,673 in the general fund, \$20,316 in the permanent improvement fund (a nonmajor governmental fund). The amount of second-half real property taxes available for advance at fiscal year-end can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2010 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to unearned revenue.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 6 - PROPERTY TAXES - (Continued)

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

The assessed values upon which the fiscal year 2010 taxes were collected are:

	2009 Second Half Collections		2010 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 160,630,820	92.50	\$ 167,373,620	95.77
Public utility personal	6,506,610	3.75	6,803,360	3.89
Tangible personal property	<u>6,521,410</u>	<u>3.75</u>	<u>597,900</u>	<u>0.34</u>
Total	<u>\$ 173,658,840</u>	<u>100.00</u>	<u>\$ 174,774,880</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$56.80		\$60.75	

NOTE 7 - RECEIVABLES

Receivables at June 30, 2010 consisted of taxes, accounts, accrued interest, and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the statement of net assets follows:

Governmental activities:

Property taxes	\$ 6,704,195
Intergovernmental	<u>399,002</u>
Total	<u>\$ 7,103,197</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, 2010

NOTE 8 - CAPITAL ASSETS

A. Capital asset activity for the fiscal year ended June 30, 2010, was as follows:

Governmental activities:	Balance <u>06/30/09</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>06/30/10</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 103,182			\$ 103,182
Total capital assets, non being depreciated	<u>103,182</u>			<u>103,182</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	1,272,992			1,272,992
Building and improvements	8,260,536	144,755		8,405,291
Furniture and equipment	619,276	58,272	(17,000)	660,548
Vehicles	1,340,344	84,871	(47,719)	1,377,496
Total capital assets, being depreciated	<u>11,493,148</u>	<u>287,898</u>	<u>(64,719)</u>	<u>11,716,327</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(1,013,035)	(23,121)		(1,036,156)
Building and improvements	(3,780,870)	(129,799)		(3,910,669)
Furniture and equipment	(454,794)	(22,861)	1,062	(476,593)
Vehicles	(896,708)	(84,002)	42,947	(937,763)
Total accumulated depreciation	<u>(6,145,407)</u>	<u>(259,783)</u>	<u>44,009</u>	<u>(6,361,181)</u>
Governmental activities capital assets, net	<u>\$ 5,450,923</u>	<u>\$ 28,115</u>	<u>\$ (20,710)</u>	<u>\$ 5,458,328</u>

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 97,498
Special	1,144
<u>Support services:</u>	
Administration	8,157
Operations and maintenance	17,016
Pupil transportation	91,885
<u>Operation of non-instructional services:</u>	
Operation of non-instructional	38,441
Food service operations	5,300
Extracurricular activities	<u>342</u>
Total depreciation expense	<u>\$ 259,783</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 9 - LEASE-PURCHASE AGREEMENT

During a prior fiscal year, the District entered into a lease-purchase agreement with Columbus Regional Airport Authority. The lease meets the criteria of a lease-purchase as defined by FASB Statement No. 13, "Accounting for Leases", which defines a lease-purchase generally as one which transfers benefits and risks of ownership to the lessee. The lease was used to fund the District's capital improvement project. Capital assets acquired by the lease purchase have been capitalized in the amount of \$2,764,450. Accumulated depreciation at June 30, 2010 was \$103,667 leaving a book value of \$2,660,783. Lease-purchase payments have been reflected as debt service expenditures in the general fund. There was \$89,000 in principal payments in fiscal year 2010. The agreement required the District to establish an escrow account with US Bank. The District will drawdown funds from this account as construction bills become due. The balance in this account at June 30, 2010 was \$28.

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, 2010.

Fiscal Year Ending June 30,	Total
2011	\$ 199,929
2012	198,941
2013	198,806
2014	198,501
2015	199,007
2016 - 2020	988,933
2021 - 2025	980,769
2026 - 2028	<u>773,177</u>
Total minimum lease payments	3,738,063
Less: amount representing interest	<u>(1,160,063)</u>
Present value of minimum lease payments	<u>\$ 2,578,000</u>

NOTE 10 - LONG-TERM OBLIGATIONS

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

	Balance Outstanding <u>06/30/09</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>06/30/10</u>	Amounts Due in <u>One Year</u>
Lease-purchase agreement	\$ 2,667,000		\$ (89,000)	\$ 2,578,000	\$ 93,000
Compensated absences	<u>835,918</u>	\$ 102,419	<u>(127,150)</u>	<u>811,187</u>	<u>157,293</u>
Total governmental activities:	<u>\$ 3,502,918</u>	<u>\$ 102,419</u>	<u>\$ (216,150)</u>	<u>\$ 3,389,187</u>	<u>\$ 250,293</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

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

B. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The code additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1% of the property valuation of the District. The assessed valuation used in determining the District's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District's legal debt margin calculation excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The effects of these debt limitations at June 30, 2010, are a voted debt margin of \$15,680,188 and an unvoted debt margin of \$174,177.

NOTE 11 - OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees earn ten to twenty days of vacation per year, depending upon length of service. Accumulated unused vacation time is paid to classified employees upon termination of employment. Teachers do not earn vacation time.

Each employee earns sick leave at the rate of one and one-fourth days per month. Upon retirement, payment is made for thirty three percent of the total sick leave accumulation, up to a maximum accumulation of seventy days for all employees. An employee receiving such payment must meet the retirement provisions set by STRS Ohio and SERS.

B. Insurance Benefits

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 12 - RISK MANAGEMENT

A. Comprehensive

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. During fiscal year 2010, the District has contracted with the Schools of Ohio Risk Sharing Authority (SORSA) to provide insurance coverage in the following amounts:

<u>Limits of Coverage</u>	<u>Carrier</u>	<u>Coverage</u>	<u>Deductible</u>
General liability:			
Each occurrence	Indiana Insurance	\$ 4,000,000	None
Aggregate		6,000,000	None
Fleet:			
Comprehensive	Indiana Insurance	4,000,000	None
Collision			None
Umbrella liability	Indiana Insurance	2,000,000	None
Building and contents	Indiana Insurance	38,462,438	\$ 500

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 14 school districts that provide public education within Erie and Huron Counties. The Districts pay monthly contributions that are placed in a common fund from which eligible claims and expenses are paid for employees of participating school districts and their covered dependents. Claims are paid for all participants regardless of claims flow.

In the event of withdrawal, the District shall assume and be responsible for payment of all claims of its eligible employees, families, and dependents from the effective date of withdrawal, regardless of when such claims were incurred, processed, or presented to the Association, insurance provider, insurance consultant, or any other appropriate or authorized person or representative; provided further, any such claims, which are paid after the effective date of withdrawal by the Association insurance provider or insurance consultant, or charged to such parties, shall be reimbursed in full by any withdrawing member upon demand of the Association.

Post employment health care is provided to plan participants or their beneficiaries through the respective retirement systems discussed in Note 14. As such, no funding provisions are required by the District.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 12 - RISK MANAGEMENT - (Continued)

C. Workers' Compensation

For fiscal year 2010, the District participated in the OASBO Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. 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 workers' compensation experience of the participating school districts is tiered into groups based upon past workers' compensation experience. Within each tiered group, a common premium rate is applied to all school districts within that group. Each participant pays its workers' compensation premium to the state based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of their tiered group. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of CompManagement, Inc. provides administrative, cost control and actuarial services to the GRP.

NOTE 13 - PENSION PLANS

A. School Employees Retirement System

Plan Description - The District contributes to the School Employees Retirement System (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement, 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 2010, 12.78 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2010, 2009 and 2008 were \$246,783, \$182,680 and \$195,435, respectively; 39.90 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 13 - PENSION PLANS - (Continued)

writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

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

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC 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 2010, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2010, 2009 and 2008 were \$706,687, \$773,787 and \$752,565, respectively; 83.36 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008. Contributions to the DC and Combined Plans for fiscal year 2010 were \$1,179 made by the District and \$842 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, 2010, 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, 2010

NOTE 14 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description - The District participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, 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 Chapter 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 premium for calendar year 2009 was \$96.40 and 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 2010, 0.46 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 2010, the actuarially determined amount was \$35,800.

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, 2010, 2009, and 2008 were \$40,077, \$116,616 and \$120,947, respectively; 39.90 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 14 - POSTEMPLOYMENT BENEFITS - (Continued)

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2010, 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, 2010, 2009, and 2008 were \$14,676, \$15,073 and \$14,082, respectively; 39.90 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

B. State Teachers Retirement System of Ohio

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

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2010, 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, 2010, 2009, and 2008 were \$54,361, \$59,522 and \$57,890, respectively; 83.36 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING

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

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

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

NOTE 15 - 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	\$ (530,668)
Net adjustment for revenue accruals	16,554
Net adjustment for expenditure accruals	34,427
Net adjustment for other sources/(uses)	(94)
Adjustment for encumbrances	<u>123,885</u>
GAAP basis	<u>\$ (355,896)</u>

NOTE 16 - CONTINGENCIES

A. Grants

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

B. Litigation

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

NOTE 17 - STATUTORY RESERVES

The District is required by State statute to annually set-aside in the general fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at year end. These amounts must be carried forward to be used for the same purposes in future years. During the fiscal year ended June 30, 2010, the reserve activity was as follows:

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 17 - STATUTORY RESERVES – (Continued)

	<u>Textbooks/ Instructional Materials</u>	<u>Capital Acquisition</u>
Set Aside Reserve Balance June 30, 2009	<u> </u>	<u> </u>
Current year set-aside requirement	\$ 217,958	\$ 217,958
Current Year Qualifying Expenditures	(195,109)	(431,957)
Excess Qualified Expenditures from Prior Years	<u>(1,626,946)</u>	<u> </u>
Total	<u>\$ (1,604,097)</u>	<u>\$ (213,999)</u>
Balance Carried Forward to Fiscal Year 2011	<u>\$ (1,604,097)</u>	<u> </u>

The District had qualifying disbursements during the year that reduced the set-aside amounts below zero for the textbook/instructional materials reserve; this extra amount may be used to reduce the set-aside requirement for future years. The negative amount is therefore presented as being carried forward to next fiscal year.

Although the District had offsets and qualifying disbursements during the year that reduced the set-aside amounts below zero for the capital acquisition reserve, this extra amount may not be used to reduce the set-aside requirement for future years. The negative amount is therefore not presented as being carried forward to the next fiscal year.

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2010**

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>Child Nutrition Cluster:</u>			
School Breakfast Program	10.553	\$ 31,966	\$ 31,966
National School Lunch Program	10.555		
Cash Assistance		203,938	203,938
Non-Cash Assistance (Food Distribution)		60,656	60,656
Total - National School Lunch Program		<u>264,594</u>	<u>264,594</u>
Total United States Department of Agriculture		<u>296,560</u>	<u>296,560</u>
UNITED STATES DEPARTMENT OF EDUCATION			
<i>Passed Through Ohio Department of Education</i>			
<u>Special Education Cluster (IDEA):</u>			
Special Education - Grants to States (IDEA, Part B)	84.027	192,691	247,163
Special Education - Grants to States (IDEA, Part B) - ARRA	84.391	99,226	145,685
Special Education - Preschool Grants (IDEA Preschool)	84.173	6,919	7,840
Special Education - Preschool Grants (IDEA Preschool) - ARRA	84.392	6,125	7,840
Total Special Education Cluster (IDEA)		<u>304,961</u>	<u>408,528</u>
<u>Title I, Part A Cluster:</u>			
Title I Grants to Local Educational Agencies (Title I, Part A of the ESEA)	84.010	160,754	164,301
Title I Grants to Local Educational Agencies - ARRA	84.389	17,794	14,934
Total - Title I, Part A Cluster		<u>178,548</u>	<u>179,235</u>
State Fiscal Stabilization Fund (SFSF) - Education State Grants- ARRA (Education Stabilization Fund)	84.394	273,571	197,010
Safe and Drug Free Schools and Communities - State Grants	84.186	4,924	5,295
Education Technology State Grants	84.318	1,927	1,776
Improving Teacher Quality State Grants	84.367	41,925	59,696
JAVITS Gifted Grant	84.206	1,000	
Total United States Department of Education		<u>806,856</u>	<u>851,540</u>
UNITED STATES DEPARTMENT OF HEALTH AND HUMAN SERVICES			
<i>Passed Through Ohio Department of Job and Family Services</i>			
Medical Assistance	93.778	20,892	20,892
TOTAL FEDERAL FINANCIAL ASSISTANCE		<u>\$ 1,124,308</u>	<u>\$ 1,168,992</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THIS SCHEDULE

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FISCAL YEAR ENDED JUNE 30, 2010**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Receipts and Expenditures (the Schedule) reports the Margarettta 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 fair value. The District allocated donated food commodities to the respective program that benefitted from the use of those donated food commodities.

NOTE D - MATCHING REQUIREMENTS

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

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Dave Yost • Auditor of State

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Margaretta Local School District, Erie County, Ohio (the District) as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 15, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

A *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 more than a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and timely corrected.

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

Compliance and Other Matters

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

We did note certain matters not requiring inclusion in this report that we reported to the District's management in a separate letter dated March 15, 2011.

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

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

March 15, 2011



Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH 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:

Compliance

We have audited the compliance of the Margaretta Local School District, Erie County, Ohio (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect the District's major federal programs for the year ended June 30, 2010. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits 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*. Those standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the Margaretta Local School District complied, in all material respects, with the requirements referred to above that could directly and materially affect its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could directly and materially affect a major federal program, to determine our auditing procedures for the purpose of opining on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of opining 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 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.

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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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



Dave Yost
Auditor of State

March 15, 2011

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2010**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any 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	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510(a)?	No
<i>(d)(1)(vii)</i>	Major Programs:	Special Education Cluster CFDA #84.027, #84.391, #84.173, and #84.392
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

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MARGARETTA LOCAL SCHOOL DISTRICT

ERIE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 31, 2011**