



Dave Yost • Auditor of State

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

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

To the Board of Education:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Margaretta Local School District, Erie County, Ohio (the District), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of Margaretta Local School District, Erie County, Ohio, as of June 30, 2015, and the changes in financial position, and the budgetary comparison for the General Fund thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 3 to the financial statements, during the year ended June 30, 2015, the District adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and also GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. We did not modify our opinion regarding this matter.

Other Matters

Required Supplementary Information

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

Supplementary and Other Information

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

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2016, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

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

Dave Yost
Auditor of State

Columbus, Ohio

March 28, 2016

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**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
UNAUDITED**

The management's discussion and analysis of Margarett Local School District's ("the District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2015. 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 2015 are as follows:

- Net position of governmental activities increased \$512,927 which represents a 4.28% increase from 2014. The net position at June 30, 2014 has been restated as described in Note 3.A.
- General revenues accounted for \$12,139,328 in revenue or 77.68% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$3,487,760 or 22.32% of total revenues of \$15,627,088.
- The District had \$15,114,161 in expenses related to governmental activities; only \$3,487,760 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$12,139,328 were adequate to provide for these programs.
- The District's only major governmental fund is the general fund. The general fund had \$14,157,229 in revenues and \$14,127,126 in expenditures and other financing uses. During fiscal year 2015, the general fund's fund balance increased \$30,103 from a fund balance of \$1,994,687 to a fund balance of \$2,024,790.

Using the Basic Financial Statements (BFS)

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

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

MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
UNAUDITED
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Statement of Net Position and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2015?" The statement of net position and the statement of activities answer this question. These statements include *all assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

Reporting the District's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

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

Reporting the District's Fiduciary Responsibilities

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

**MARGARETTA LOCAL SCHOOL DISTRICT
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**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
UNAUDITED
(Continued)**

Notes to the Basic Financial Statements

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

Required Supplementary Information

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

The District as a Whole

The statement of net position provides the perspective of the District as a whole. The table below provides a summary of the District's net position at June 30, 2015 and June 30, 2014. The net position at June 30, 2014 has been restated as described in Note 3.A.

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
UNAUDITED
(Continued)**

	Net Position	
	Governmental Activities 2015	Restated Governmental Activities 2014
<u>Assets</u>		
Current and other assets	\$ 8,968,270	\$ 8,974,745
Capital assets, net	<u>5,594,551</u>	<u>5,587,626</u>
Total assets	<u>14,562,821</u>	<u>14,562,371</u>
<u>Deferred Outflows of Resources</u>		
Pension	<u>1,152,392</u>	<u>923,869</u>
Total deferred outflows of resources	<u>1,152,392</u>	<u>923,869</u>
<u>Liabilities</u>		
Current liabilities	1,422,448	1,366,929
Long-term liabilities:		
Due within one year	229,244	206,199
Due in more than one year:		
Net pension liability	15,273,953	18,136,052
Other amounts	<u>2,600,164</u>	<u>2,726,408</u>
Total liabilities	<u>19,525,809</u>	<u>22,435,588</u>
<u>Deferred Inflows of Resources</u>		
Property taxes levied for next year	4,922,198	5,040,479
Pensions	<u>2,744,106</u>	<u> </u>
Total deferred inflows of resources	<u>7,666,304</u>	<u>5,040,479</u>
<u>Net Position</u>		
Net investment in capital assets	3,518,551	3,402,626
Restricted	269,576	212,674
Unrestricted (deficit)	<u>(15,265,027)</u>	<u>(15,605,127)</u>
Total net position (deficit)	<u>\$ (11,476,900)</u>	<u>\$ (11,989,827)</u>

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

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

**MARGARETTA LOCAL SCHOOL DISTRICT
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**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
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Ohio's statewide pension systems and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

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

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

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

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

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

As a result of implementing GASB 68, the District is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting. This implementation also had the effect of restating net position at June 30, 2014, from \$5,222,356 to (\$11,989,827).

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2015, the District's liabilities plus deferred inflows of resources exceeded assets plus deferred outflows of resources by \$11,476,900.

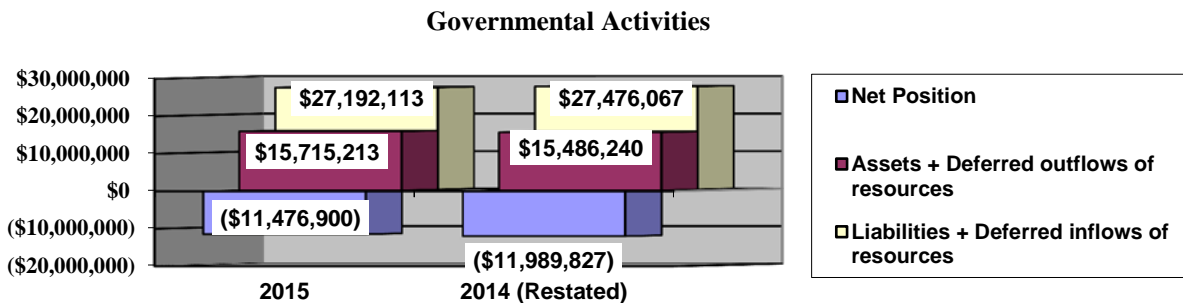
**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
UNAUDITED
(Continued)**

At year-end, capital assets represented 38.42% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Net investment in capital assets at June 30, 2015, was \$3,518,551. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net position, \$269,576, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net position is a deficit of \$15,265,027.

The graph below illustrates the governmental activities assets, liabilities plus deferred inflows of resources, and net position at June 30, 2015 and June 30, 2014. The net position at June 30, 2014 has been restated as described in Note 3.A.



The table below shows the change in net position for fiscal years 2015 and 2014. The net position at June 30, 2014 has been restated as described in Note 3.A.

**MARGARETTA LOCAL SCHOOL DISTRICT
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**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
UNAUDITED
(Continued)**

	Change in Net Position	
	Governmental Activities 2015	Restated Governmental Activities 2014
	<u>2015</u>	<u>2014</u>
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 2,219,094	\$ 2,273,556
Operating grants and contributions	1,268,666	1,371,720
General revenues:		
Property taxes	5,819,694	5,423,081
Grants and entitlements	6,010,365	5,970,155
Investment earnings	3,064	2,544
Other	306,205	266,942
	<u>15,627,088</u>	<u>15,307,998</u>
Total revenues	\$ 15,627,088	\$ 15,307,998
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 4,803,859	\$ 4,653,645
Special	1,764,825	1,912,715
Vocational	295,443	246,348
Other	1,283,349	1,049,849
Support services:		
Pupil	793,385	692,764
Instructional staff	604,524	756,699
Board of education	167,952	182,739
Administration	1,067,527	983,062
Fiscal	427,583	416,210
Business	10	
Operations and maintenance	1,337,183	1,187,432
Pupil transportation	1,144,946	1,043,228
Central	102,199	94,478
Operation of non-instructional services:		
Other non-instructional services	175,444	147,320
Food service operations	521,860	525,818
Extracurricular activities	530,157	468,192
Interest and fiscal charges	93,915	98,638
	<u>15,114,161</u>	<u>14,459,137</u>
Total expenses	15,114,161	14,459,137
Change in net position	512,927	848,861
Net position (deficit) at beginning of year (restated)	<u>(11,989,827)</u>	<u>N/A</u>
Net position (deficit) at end of year	<u>\$ (11,476,900)</u>	<u>\$ (11,989,827)</u>

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
UNAUDITED
(Continued)**

Governmental Activities

The information necessary to restate the 2014 beginning balances and the 2014 pension expense amounts for the effects of the initial implementation of GASB 68 is not available. Therefore, 2014 functional expenses still include pension expense of \$923,869 computed under GASB 27. GASB 27 required recognizing pension expense equal to the contractually required contributions to the plan. Under GASB 68, pension expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of pension expense. Under GASB 68, the 2015 statements report pension expense of \$662,844.

Consequently, in order to compare 2015 total program expenses to 2014, the following adjustments are needed:

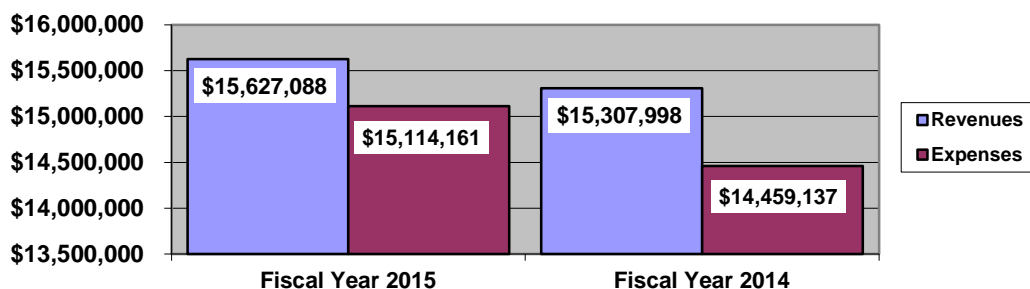
Total 2015 program expenses under GASB 68	\$ 15,114,161
Pension expense under GASB 68	(662,844)
2015 contractually required contributions	<u>1,009,360</u>
Adjusted 2015 program expenses	15,460,677
Total 2014 program expenses under GASB 27	<u>14,459,137</u>
Increase in program expenses not related to pension	<u>\$ 1,001,540</u>

Net position of the District's governmental activities increased \$512,927. Total governmental expenses of \$15,114,161 were offset by program revenues of \$3,487,760 and general revenues of \$12,139,328. Program revenues supported 23.08% 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 75.70% of total governmental revenue. Real estate property is reappraised every six years.

The graph below presents the District's governmental activities revenue and expenses for fiscal year 2015 and 2014.

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

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
UNAUDITED
(Continued)**

and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements.

Governmental Activities				
	Total Cost of Services <u>2015</u>	Net Cost of Services <u>2015</u>	Total Cost of Services <u>2014</u>	Net Cost of Services <u>2014</u>
Program expenses				
Instruction:				
Regular	\$ 4,803,859	\$ 3,687,843	\$ 4,653,645	\$ 3,615,020
Special	1,764,825	789,225	1,912,715	934,170
Vocational	295,443	272,964	246,348	219,583
Other	1,283,349	1,283,349	1,049,849	1,049,849
Support services:				
Pupil	793,385	757,071	692,764	529,333
Instructional staff	604,524	597,899	756,699	717,245
Board of education	167,952	167,952	182,739	182,739
Administration	1,067,527	1,067,527	983,062	983,062
Fiscal	427,583	427,583	416,210	416,210
Business	10	10		
Operations and maintenance	1,337,183	1,104,837	1,187,432	718,518
Pupil transportation	1,144,946	1,083,846	1,043,228	988,153
Central	102,199	98,599	94,478	94,478
Operations of non-instructional services:				
Other non-instructional services	175,444	49,948	147,320	27,729
Food service operations	521,860	2,978	525,818	(15,394)
Extracurricular activities	530,157	140,855	468,192	254,528
Interest and fiscal charges	93,915	93,915	98,638	98,638
Total expenses	<u>\$ 15,114,161</u>	<u>\$ 11,626,401</u>	<u>\$ 14,459,137</u>	<u>\$ 10,813,861</u>

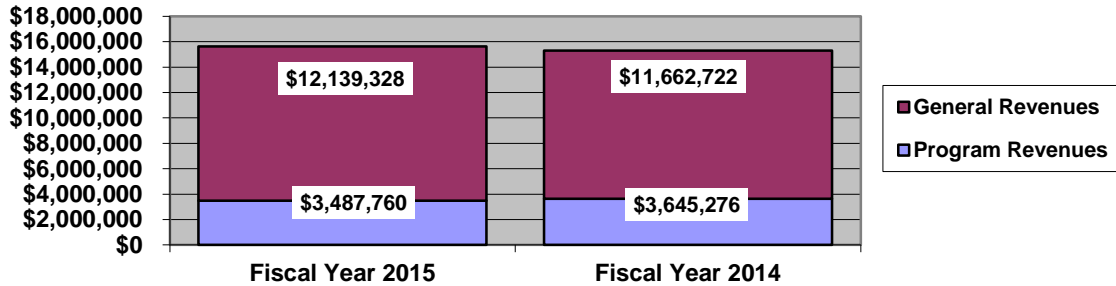
The dependence upon tax and other general revenues for governmental activities is apparent, 74.05% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 76.92%. The District's taxpayers and grants and entitlements 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 2015 and 2014.

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
UNAUDITED
(Continued)**

Governmental Activities - General and Program Revenues



The District's Funds

The District's governmental funds (as presented on the balance sheet) reported a combined fund balance of \$2,172,336, which is more than last year's balance of \$2,136,159. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2015 and June 30, 2014.

	Fund Balance <u>June 30, 2015</u>	Fund Balance <u>June 30, 2014</u>	<u>Increase</u>
General	\$ 2,024,790	\$ 1,994,687	\$ 30,103
Other Governmental	<u>147,546</u>	<u>141,472</u>	<u>6,074</u>
Total	<u>\$ 2,172,336</u>	<u>\$ 2,136,159</u>	<u>\$ 36,177</u>

General Fund

The District's general fund balance increased \$30,103 from a fund balance of \$1,994,687 to a fund balance of \$2,024,790. See the table on the following page for a more detailed look at the general fund.

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

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
UNAUDITED
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	2015 <u>Amount</u>	2014 <u>Amount</u>	<u>Change</u>	Percentage <u>Change</u>
<u>Revenues</u>				
Property taxes	\$ 5,686,405	\$ 5,303,183	\$ 383,222	7.23 %
Tuition	1,168,705	1,133,340	35,365	3.12 %
Earnings on investments	2,369	2,578	(209)	(8.11) %
Classroom materials and fees	72,718	67,905	4,813	7.09 %
Other revenues	791,214	879,855	(88,641)	(10.07) %
Intergovernmental	<u>6,435,818</u>	<u>6,446,139</u>	<u>(10,321)</u>	(0.16) %
 Total	 <u>\$ 14,157,229</u>	 <u>\$ 13,833,000</u>	 <u>\$ 324,229</u>	 2.34 %
<u>Expenditures</u>				
Instruction	\$ 7,868,020	\$ 7,283,059	\$ 584,961	8.03 %
Support services	5,613,913	5,346,608	267,305	5.00 %
Operation of non-instructional services	176,671	146,978	29,693	20.20 %
Extracurricular activities	260,589	235,526	25,063	10.64 %
Debt service	<u>203,268</u>	<u>202,975</u>	<u>293</u>	0.14 %
 Total	 <u>\$ 14,122,461</u>	 <u>\$ 13,215,146</u>	 <u>\$ 907,315</u>	 6.87 %

Overall revenues of the general fund increased \$324,229 or 2.34%. The most significant increases were in the area of tuition and property taxes. Tuition revenue increased \$35,365 or 3.12% due to an increase in open enrollment from the prior year from public school districts in the area. This increase in open enrollment can attribute to the increase in classroom materials and fees from the prior year. The increase in property tax revenue is attributable to the amount of taxes collected and available to the District as an advance at fiscal year-end. The decrease in other revenue can be attributed to a decrease in rental income. All other revenues remained consistent with prior year.

Overall expenditures of the general fund increased \$907,315 or 6.87%. The most significant increases were in the areas of instruction and support services. Instruction services increased \$584,961. This increase can be attributed to the increase in costs associated with the increase in open enrollment. The increase in support services can be attributed to increases in pupil, administration and operations and maintenance expenditures.

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 2015, the District did not amend its general fund budgeted revenues. For the general fund, final budgeted revenues were \$13,800,443, which was the same as the original budgeted revenues. Actual revenues and other financing sources for fiscal year 2015 were \$14,094,131. This represents a \$293,688 increase from final budgeted revenues.

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
UNAUDITED
(Continued)**

General fund original appropriations (appropriated expenditures plus other financing uses) of \$13,965,458 were increased to \$14,576,146 in the final budget. The actual budget basis expenditures and other financing uses for fiscal year 2015 totaled \$14,205,488, which was \$370,658 lower than the final budget appropriations.

Capital Assets

At the end of fiscal year 2015, the District had \$5,594,551 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, 2015 and June 30, 2014:

**Capital Assets at June 30
(Net of Depreciation)**

	Governmental Activities	
	2015	2014
Land	\$ 106,152	\$ 103,182
Land improvements	195,716	158,920
Buildings and improvements	4,471,549	4,474,085
Furniture and equipment	288,064	290,595
Vehicles	533,070	560,844
Total	\$ 5,594,551	\$ 5,587,626

The overall increase in capital assets of \$6,925 is primarily due to capital outlays of \$344,538 exceeding depreciation expense of \$317,194 and disposals of \$20,419 (net of accumulated depreciation) in fiscal year 2015.

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

Debt Administration

At June 30, 2015, the District had \$2,076,000 in lease-purchase obligations. Of this amount, \$113,000 is due within one year and \$1,963,000 is due within greater than one year. The following table summarizes the debt outstanding at June 30, 2015 and June 30, 2014.

Outstanding Debt, at Year End

	Activities 2015	Activities 2014
Lease-purchase agreement	\$ 2,076,000	\$ 2,185,000

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
UNAUDITED
(Continued)**

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

Current Financial Related Activities

In fiscal year 2015, the District retained a positive operating cash flow for the fifth consecutive fiscal year. The general fund's cash balance grew by \$117,257 during the fiscal year. The General Fund cash balance was \$2,500,135 at the end of the fiscal year. On a cash basis, the General Fund revenues and other financing sources grew by 1.94% when compared with fiscal year 2014 revenues. The largest growth in year-over-year revenue resulted from a 11.13% increase in Open Enrollment funding from adjoining school districts to \$928,463. Cash basis General Fund expenditures and other financing uses grew by 6.14% when compared with fiscal year 2014. The increase can be attributed to increases in salaries of 3.57% and fringe benefits of 10.18%. The fringe benefit cost increase was driven by an increase in medical insurance premiums. Salaries and fringe benefit cost increases can be attributed to, in part, from an increase in Special Education staffing levels resulting from an increase in Special Education student enrollment at the Elementary level.

Townsend Community School continues to grow. Townsend has enrolled students from school districts across the state. Townsend enrollment at the end of the 2014-15 school year reached nearly 700 students and 170 students graduated in the 2014-15 school year. Margaretta received and/or accrued \$118,650 for facility lease and building maintenance payments, \$74,296 in transportation services, \$47,918 in support services in the 2014-15 school year. In addition, Margaretta accrued \$136,064 for Sponsorship fee, statutory 3% of Townsend's State determined Enrollment funding. With the exception of transportation, Margaretta has used its own operational capacity to generate the additional revenue. Townsend is preparing to build their own capacity by constructing an Educational Learning Center adjacent to Margaretta High School. Townsend is leasing the land area to support the construction. The facility will include a technology center that will be made available to Margaretta students. Construction began in the fall of 2014 and the facility opened in time for the 2015-16 school year.

The State's General Assembly passed a bi-annual budget bill in June, 2013. For the first time since Fiscal Year 2004, the district is no longer on a basic aid guarantee effective fiscal year 2014. The State funding model changed the way that preschool is to be funded. Prior to fiscal year 2014, the State funded preschool using a unit or classroom method. Preschool students are now included in the enrollment with all other residential students. This change in funding method has contributed to the district now being funded on the foundation formula for basic aid. State foundation unrestricted grant in aid funding grew by \$51,723 to a total of \$4,169,161. This was a 1.25% increase in State aid. The most financial significant portion of the state's budget is the treatment of the tangible personal property tax reimbursement funding source. The legislature agreed to suspend the phase out of this revenue source throughout the bi-annual budget period. The reimbursement began being phased out in the previous two fiscal years and intended to phase out completely by State fiscal year 2018. In June 2015, the General Assembly adopted a new budget bill (House Bill 64) that restored the phase-out of the Tangible Personal Property Tax Loss Reimbursement that was to be totally phased out at a rate not exceed 1.75% operating revenue. House Bill 64 also increased State Formula Aid for the District which is anticipated to increase by over \$280,000 including the loss in Tangible Personal Property Tax Reimbursement. The increase in State Formula Aid will exceed the loss in Tangible Personal Property Tax Loss Reimbursement over the next two fiscal years.

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
UNAUDITED
(Continued)**

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 POSITION
JUNE 30, 2015

	<u>Governmental Activities</u>
Assets:	
Equity in pooled cash and cash equivalents	\$ 2,772,831
Receivables:	
Property taxes	6,099,543
Accrued interest	695
Intergovernmental	85,002
Materials and supplies inventory	606
Inventory held for resale	9,593
Capital assets:	
Nondepreciable capital assets	106,152
Depreciable capital assets, net	5,488,399
Capital assets, net	<u>5,594,551</u>
Total assets	<u>14,562,821</u>
 Deferred outflows of resources:	
Pension - STRS	824,723
Pension - SERS	327,669
Total deferred outflows of resources	<u>1,152,392</u>
 Liabilities:	
Accounts payable	87,032
Accrued wages and benefits payable	987,841
Intergovernmental payable	114,424
Pension and postemployment benefits payable	226,419
Accrued interest payable	6,732
Long-term liabilities:	
Due within one year	229,244
Due in more than one year:	
Net pension liability	15,273,953
Other amounts due in more than one year	2,600,164
Total liabilities	<u>19,525,809</u>
 Deferred inflows of resources:	
Property taxes levied for the next fiscal year	4,922,198
Pension - STRS	2,160,465
Pension - SERS	583,641
Total deferred inflows of resources	<u>7,666,304</u>
 Net position:	
Net investment in capital assets	3,518,551
Restricted for:	
Capital projects	124,404
Locally funded programs	10,877
State funded programs	3,044
Federally funded programs	58,550
Student activities	72,701
Unrestricted (deficit)	(15,265,027)
Total net position (deficit)	<u>\$ (11,476,900)</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, 2015

	Program Revenues			Net (Expense) Revenue and Changes in Net Position
Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities	
Governmental activities:				
Instruction:				
Regular	\$ 4,803,859	\$ 1,066,170	\$ 49,846	\$ (3,687,843)
Special	1,764,825	175,253	800,347	(789,225)
Vocational	295,443		22,479	(272,964)
Other	1,283,349			(1,283,349)
Support services:				
Pupil	793,385		36,314	(757,071)
Instructional staff	604,524		6,625	(597,899)
Board of education	167,952			(167,952)
Administration	1,067,527			(1,067,527)
Fiscal	427,583			(427,583)
Business	10			(10)
Operations and maintenance	1,337,183	227,788	4,558	(1,104,837)
Pupil transportation	1,144,946		61,100	(1,083,846)
Central	102,199		3,600	(98,599)
Operation of non-instructional services:				
Other non-instructional services	175,444	125,496		(49,948)
Food service operations	521,860	235,085	283,797	(2,978)
Extracurricular activities	530,157	389,302		(140,855)
Interest and fiscal charges	93,915			(93,915)
Total governmental activities	<u>\$ 15,114,161</u>	<u>\$ 2,219,094</u>	<u>\$ 1,268,666</u>	<u>(11,626,401)</u>
 General revenues:				
Property taxes levied for:				
General purposes				5,659,345
Capital outlay				160,349
Grants and entitlements not restricted to specific programs				6,010,365
Investment earnings				3,064
Miscellaneous				306,205
Total general revenues				12,139,328
Change in net position				512,927
Net position (deficit) at beginning of year (restated)				(11,989,827)
Net position (deficit) at end of year				\$ (11,476,900)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2015

	General	Nonmajor Governmental Funds	Total Governmental Funds
Assets:			
Equity in pooled cash and cash equivalents	\$ 2,500,135	\$ 272,696	\$ 2,772,831
Receivables:			
Property taxes	5,931,130	168,413	6,099,543
Accrued interest	695		695
Interfund loans	3,800		3,800
Intergovernmental	23,266	61,736	85,002
Materials and supplies inventory		606	606
Inventory held for resale		9,593	9,593
Total assets	\$ 8,459,026	\$ 513,044	\$ 8,972,070
Liabilities:			
Accounts payable	\$ 34,022	\$ 53,010	\$ 87,032
Accrued wages and benefits payable	910,004	77,837	987,841
Compensated absences payable	56,964		56,964
Intergovernmental payable	108,269	6,155	114,424
Pension and postemployment benefits payable	207,696	18,723	226,419
Interfund loans payable		3,800	3,800
Total liabilities	1,316,955	159,525	1,476,480
Deferred inflows of resources:			
Property taxes levied for the next fiscal year	4,786,681	135,517	4,922,198
Delinquent property tax revenue not available	306,639	8,734	315,373
Intergovernmental revenue not available	23,266	61,722	84,988
Accrued interest not available	695		695
Total deferred inflows of resources	5,117,281	205,973	5,323,254
Fund balances:			
Nonspendable:			
Materials and supplies inventory		606	606
Restricted:			
Capital improvements		115,670	115,670
Special education		8,048	8,048
Other purposes		23,127	23,127
Extracurricular activities		72,701	72,701
Assigned:			
Student instruction	6,556		6,556
Student and staff support	240,085		240,085
Subsequent year's appropriations	922,450		922,450
Operation of non-instructional	89		89
Unassigned (deficit)	855,610	(72,606)	783,004
Total fund balances	2,024,790	147,546	2,172,336
Total liabilities, deferred inflows and fund balances	\$ 8,459,026	\$ 513,044	\$ 8,972,070

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET POSITION OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2015

Total governmental fund balances		\$ 2,172,336
<i>Amounts reported for governmental activities on the statement of net position are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		5,594,551
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred inflows in the funds.		
Property taxes receivable	\$ 315,373	
Accrued interest receivable	695	
Intergovernmental receivable	<u>84,988</u>	
Total		401,056
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.		(6,732)
The net pension liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in governmental funds:		
Deferred outflows of resources - pension	1,152,392	
Deferred inflows of resources - pension	(2,744,106)	
Net pension liability	<u>(15,273,953)</u>	
Total		(16,865,667)
Long-term liabilities, including lease-purchases, are not due and payable in the current period and therefore are not reported in the funds.		
Lease-purchase	(2,076,000)	
Compensated absences	<u>(696,444)</u>	
Total		<u>(2,772,444)</u>
Net position (deficit) of governmental activities		<u>\$ (11,476,900)</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, 2015

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
From local sources:			
Property taxes	\$ 5,686,405	\$ 161,129	\$ 5,847,534
Tuition	1,168,705		1,168,705
Earnings on investments	2,369		2,369
Charges for services		238,861	238,861
Extracurricular	125,496	253,274	378,770
Classroom materials and fees	72,718		72,718
Rental income	224,012		224,012
Contract services	136,028		136,028
Other local revenues	305,678	15,805	321,483
Intergovernmental - state	6,410,424	54,299	6,464,723
Intergovernmental - federal	25,394	754,325	779,719
Total revenues	<u>14,157,229</u>	<u>1,477,693</u>	<u>15,634,922</u>
Expenditures:			
Current:			
Instruction:			
Regular	4,862,338	106,738	4,969,076
Special	1,420,256	404,532	1,824,788
Vocational	302,077		302,077
Other	1,283,349		1,283,349
Support services:			
Pupil	768,760	36,346	805,106
Instructional staff	604,860	7,735	612,595
Board of education	168,230	346	168,576
Administration	1,087,303		1,087,303
Fiscal	433,670	2,993	436,663
Business	10		10
Operations and maintenance	1,308,922	8,398	1,317,320
Pupil transportation	1,141,832		1,141,832
Central	100,326	3,600	103,926
Operation of non-instructional services:			
Other non-instructional services	176,671		176,671
Food service operations		522,906	522,906
Extracurricular activities	260,589	247,059	507,648
Facilities acquisition and construction		137,306	137,306
Debt service:			
Principal retirement	109,000		109,000
Interest and fiscal charges	94,268		94,268
Total expenditures	<u>14,122,461</u>	<u>1,477,959</u>	<u>15,600,420</u>
Excess (deficiency) of revenues over (under) expenditures	<u>34,768</u>	<u>(266)</u>	<u>34,502</u>
Other financing sources (uses):			
Transfers in		4,665	4,665
Transfers (out)	(4,665)		(4,665)
Total other financing sources (uses)	<u>(4,665)</u>	<u>4,665</u>	
Net change in fund balances	30,103	4,399	34,502
Fund balances at beginning of year	1,994,687	141,472	2,136,159
Increase in reserve for inventory		1,675	1,675
Fund balances at end of year	<u>\$ 2,024,790</u>	<u>\$ 147,546</u>	<u>\$ 2,172,336</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

Net change in fund balances - total governmental funds	\$	34,502
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.		
Capital asset additions	\$ 344,538	
Current year depreciation	<u>(317,194)</u>	
Total		27,344
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net position.		
		(20,419)
Governmental funds report expenditures for inventory when purchased. However, in the statement of activities, they are reported as an expense when consumed.		
		1,675
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Property taxes	(27,840)	
Earnings on investments	695	
Intergovernmental	<u>19,311</u>	
Total		(7,834)
Repayment of lease-purchase principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net position. Principal payments during the year were:		
		109,000
In the statement of activities, interest is accrued, whereas in governmental funds, an interest expenditure is reported when due. The following items resulted in additional interest being reported in the statement of activities:		
		353
Contractually required contributions are reported as expenditures in governmental funds; however, the statement of activities reports these amounts as deferred outflows.		
		1,009,360
Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities.		
		(662,844)
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>21,790</u>
Change in net position of governmental activities	\$	<u>512,927</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, 2015

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Property taxes	\$ 5,587,455	\$ 5,587,455	\$ 5,534,183	\$ (53,272)
Tuition	1,145,000	1,145,000	1,168,705	23,705
Earnings on investments	5,000	5,000	2,509	(2,491)
Classroom materials and fees	68,000	68,000	72,718	4,718
Rental income	112,500	112,500	356,540	244,040
Contract services	327,950	327,950	136,028	(191,922)
Other local revenues	260,250	260,250	305,679	45,429
Intergovernmental - state	6,258,288	6,258,288	6,490,213	231,925
Intergovernmental - federal	36,000	36,000	25,394	(10,606)
Total revenues	<u>13,800,443</u>	<u>13,800,443</u>	<u>14,091,969</u>	<u>291,526</u>
Expenditures:				
Current:				
Instruction:				
Regular	4,796,945	4,830,274	4,802,582	27,692
Special	1,392,542	1,522,135	1,460,765	61,370
Vocational	227,702	305,202	297,145	8,057
Other	1,125,000	1,285,000	1,283,349	1,651
Support services:				
Pupil	746,107	771,379	761,962	9,417
Instructional staff	632,993	629,315	603,632	25,683
Board of education	186,936	205,706	186,384	19,322
Administration	1,143,814	1,145,712	1,099,130	46,582
Fiscal	446,678	456,678	431,826	24,852
Operations and maintenance	1,519,985	1,527,659	1,435,508	92,151
Pupil transportation	1,153,898	1,249,828	1,226,725	23,103
Central	92,909	122,309	105,426	16,883
Other non-instructional services	34,200	39,200	38,557	643
Extracurricular activities	252,480	272,480	260,764	11,716
Debt service:				
Interest and fiscal charges	203,269	203,269	203,268	1
Total expenditures	<u>13,955,458</u>	<u>14,566,146</u>	<u>14,197,023</u>	<u>369,123</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(155,015)</u>	<u>(765,703)</u>	<u>(105,054)</u>	<u>660,649</u>
Other financing sources (uses):				
Refund of prior year's expenditures			62	62
Transfers (out)	(5,000)	(5,000)	(4,665)	335
Advances in			2,100	2,100
Advances (out)	(5,000)	(5,000)	(3,800)	1,200
Total other financing sources (uses)	<u>(10,000)</u>	<u>(10,000)</u>	<u>(6,303)</u>	<u>3,697</u>
Net change in fund balance	(165,015)	(775,703)	(111,357)	664,346
Fund balance at beginning of year	2,286,651	2,286,651	2,286,651	
Prior year encumbrances appropriated	56,688	56,688	56,688	
Fund balance at end of year	<u>\$ 2,178,324</u>	<u>\$ 1,567,636</u>	<u>\$ 2,231,982</u>	<u>\$ 664,346</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2015

	Private-Purpose Trust	
	Scholarship	Agency
Assets:		
Equity in pooled cash and cash equivalents	\$ 291,648	\$ 54,729
Receivables:		
Accrued interest	160	
Total assets	291,808	\$ 54,729
Liabilities:		
Accounts payable		\$ 280
Due to students		54,449
Total liabilities		\$ 54,729
Net position:		
Held in trust for scholarships	291,808	
Total net position	\$ 291,808	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	Private-Purpose Trust
	Scholarship
Additions:	
Interest	\$ 725
Gifts and contributions	21,738
Total additions	22,463
 Deductions:	
Scholarships awarded	28,817
Change in net position	(6,354)
Net position at beginning of year	298,162
Net position at end of year	\$ 291,808

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

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

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

The District currently operates 2 elementary schools and 1 high school. It employs 108 non-certified employees and 89 certified (including administrative) employees to provide services to approximately 1,165 students.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District's significant accounting policies are described below.

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units" and GASB Statement No. 61, "The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34". The reporting entity is composed of the primary government and component units. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, food service, and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's Governing Board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Certain organizations are also included as component units if the nature and significance of the relationship between the primary government and the organization is such that exclusion by the primary government would render the primary government's financial statements incomplete or misleading. Based upon the application of these criteria, the District has no component units. The basic

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financial statements of the reporting entity include only those of the District (the primary government).

The following organizations are described due to their relationship to the District:

JOINTLY GOVERNED ORGANIZATIONS

Bay Area Council of Governments

The Bay Area Council of Governments (BACG) is a jointly governed organization. Members of the BACG consist of 26 school districts representing 7 counties (Ottawa, Sandusky, Seneca, Erie, Huron, Wood, and Crawford). The BACG was formed for the purpose of purchasing goods and services at a lower cost. The items currently being purchased through the council of governments are natural gas and insurance. The only cost to the District is an administrative charge if it participates in purchasing through the BACG. The membership of BACG consists of the superintendent of each participating school district. The Board of Directors of the BACG consists of one elected representative of each county, the superintendent of the fiscal agent and two non-voting members (administrator and fiscal agent). Members of the Board serve staggered two-year terms. The amount paid in fiscal year 2015 was \$53,399. Financial information can be obtained by contacting the North Point Educational Service Center, which serves as fiscal agent, at 1210 East Bogart Road, Sandusky, Ohio 44870.

Northern Ohio Educational Computer Association

The Northern Ohio Educational Computer Association (NOECA) is a jointly governed organization, which is a computer consortium. NOECA is an association of 41 public school districts formed for the purpose of applying modern technology (with the aid of computers and other electronic equipment) to administrative and instructional functions among member school districts. The NOECA Board of Directors consists of two representatives from each county in which participating school districts are located, the chairman of each of the operating committees, and a representative from the fiscal agent. The amount paid in fiscal year 2015 was \$24,143. Financial information can be obtained from Matt Bauer, who serves as Controller, 1210 East Bogart Road, Sandusky, Ohio 44870.

PUBLIC ENTITY RISK POOLS

Workers' Compensation Group Rating Program

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

Schools of Ohio Risk Sharing Authority

The District participates in the Schools of Ohio Risk Sharing Authority Board (SORSA), an insurance purchasing pool. SORSA's business affairs are conducted by a nine member Board of directors consisting of a President, Vice President, Secretary, Treasurer and five delegates. SORSA was created to provide joint self-insurance coverage and to assist members to prevent and reduce losses and injuries to the District's property and persons. It

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is intended to provide liability and property insurance at reduced premiums for the participants. SORSA is organized as a nonprofit corporation under provisions of Ohio Revised Code 2744.

Huron-Erie School Employees Insurance Association

The Huron-Erie School Employees Insurance Association (Association) is a public entity risk pool comprised of several districts. The Association assembly consists of a superintendent or designated representative from each participating district and the program administrator. The Association is governed by a Board of Directors chosen from the general membership. The degree of control exercised by any participating district is limited to its representation on the Board. Financial information can be obtained by writing to the fiscal officer at 1210 East Bogart Road, Sandusky, Ohio 44870.

B. Fund Accounting

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

GOVERNMENTAL FUNDS

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

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

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

PROPRIETARY FUNDS

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

FIDUCIARY FUNDS

Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds,

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private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The District's trust funds are private-purpose trusts which account for scholarship programs for students. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency fund accounts for student activities.

C. Measurement Focus

Government-wide Financial Statements - The statement of net position and the statement of activities display information about the District as a whole. These statements included the financial activities of the primary government, except for fiduciary funds.

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

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

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

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

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

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D. Basis of Accounting

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

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

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donation. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 6).

Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: property taxes available as an advance, interest, tuition, grants, and student fees.

Deferred Outflows of Resources and Deferred Inflows of Resources - In addition to assets, the government-wide statement of net position will report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the District, deferred outflows of resources have been reported for the following two items related the District's net pension liability: (1) the difference between expected and actual experience of the pension systems, and (2) the District's contributions to the pension systems subsequent to the measurement date.

In addition to liabilities, both the government-wide statement of net position and the governmental fund financial statements report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the District, deferred inflows of resources include property taxes and unavailable revenue. Property taxes represent amounts for which there is an enforceable

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legal claim as of June 30, 2015, but which were levied to finance fiscal year 2016 operations. These amounts have been recorded as a deferred inflow of resources on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the District unavailable revenue includes, but is not limited to, delinquent property taxes, intergovernmental grants and accrued interest. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available.

The District also reports a deferred inflow of resources for the net difference between projected and actual earnings on pension plan investments related to the District's net pension liability. This deferred inflow of resources is only reported on the government-wide statement of net position.

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

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

E. Budgets

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated. The legal level of budgetary control is at the fund, function, object level for the general fund and at the fund level for all other funds.

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

Tax Budget:

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

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Estimated Resources:

By April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's certificate of estimated resources, which states the projected revenue of each fund. Prior to July 1, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered cash balances from the preceding year. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statements reflect the amounts in the original and final certificates of estimated resources issued during the fiscal year.

Appropriations:

Upon receipt from the County Auditor of an amended certificate of estimated resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution is enacted by the Board of Education. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the District. The appropriation resolution, by fund, must be within the estimated resources as certified by the County Budget Commission and the total of expenditures may not exceed the appropriation totals at any level of control. Any revisions that alter the legal level of budgetary control must be approved by the Board of Education.

The Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources. During the year, all supplemental appropriations were legally enacted.

The appropriation resolution is subject to amendment by the Board throughout the year with the restriction that appropriations may not exceed estimated revenues. The amounts reported as the original budget amounts reflect the first appropriation for the fund that covered the entire fiscal year, including amounts automatically carried over from prior year. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the year.

Lapsing of Appropriations:

Unencumbered appropriations lapse at year end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Cash disbursements plus encumbrances may not legally exceed budgeted appropriations at the fund level.

Encumbrance accounting is utilized with District funds in the normal course of operations, for purchase orders and contract related expenditures. An encumbrance is a reserve on the available spending authority due to commitment for a future expenditure and does not represent a liability.

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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 2015, investments were limited to nonnegotiable certificates of deposits and investments in the State Treasury Asset Reserve of Ohio (STAR Ohio). Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts, such as nonnegotiable certificates of deposit, are recorded at cost.

The District has invested funds in STAR Ohio during fiscal year 2015. 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, 2015.

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 2015 amounted to \$2,369, which includes \$466 assigned from other District funds.

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

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

G. Inventory

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

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

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

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H. Capital Assets

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

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

All reported capital assets except land are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Land improvements	5 - 25 years
Buildings and improvements	10 - 50 years
Furniture and equipment	5 - 20 years
Vehicles	8 years

I. Interfund Balances

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

J. Compensated Absences

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

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

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to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees age fifty or greater with at least ten years of service and all employees with at least twenty years of service regardless of their age were considered expected to become eligible in accordance with GASB Statement No. 16.

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

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

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

K. Accrued Liabilities and Long-Term Obligations

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

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

L. Fund Balance

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

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

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

Committed - The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the District

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

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

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

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

M. Net Position

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

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

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

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basic financial statements and accompanying notes. Actual results may differ from those estimates.

O. Interfund Activity

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

P. Pensions

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

Q. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2015.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles/Restatement of Net Position

For fiscal year 2015, the District has implemented GASB Statement No. 68, "Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27", GASB Statement No. 69 "Government Combinations and Disposals of Government Operations", and GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date - an Amendment of GASB Statement No. 68".

GASB Statement No. 69 establishes accounting and financial reporting standards related to government combinations and disposals of government operations. The Statement improves the decision usefulness of financial reporting by requiring that disclosures be made by governments about combination arrangements in which they engage and for disposals of government operations. The implementation of GASB Statement No. 69 did not have an effect on the financial statements of the District.

GASB Statement No. 68 improves the accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. The implementation of GASB Statement No. 68 affected the District's pension plan

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disclosures, as presented in Note 14 to the financial statements, and added required supplementary information.

GASB Statement No. 71 improves the accounting and financial reporting by addressing an issue in GASB Statement No. 68, concerning transition provisions related to certain pension contributions made to defined benefit pension plans prior to implementation of that Statement by employers and nonemployer contributing entities.

A net position restatement is required in order to implement GASB Statement No 68 and 71. The governmental activities at July 1, 2014 have been restated as follows:

	Governmental Activities
Net position as previously reported	\$ 5,222,356
Deferred outflows - payments subsequent to measurement date	923,869
Net pension liability	(18,136,052)
Restated net position at July 1, 2014	\$(11,989,827)

Other than employer contributions subsequent to the measurement date, the District made no restatement for deferred inflows/outflows of resources as the information needed to generate these restatements was not available. The restatement had no effect on fund balances.

B. Deficit Fund Balances

Fund balances at June 30, 2015 included the following individual fund deficits:

Nonmajor funds	Deficit
Food service	\$ 7,301
IDEA Part-B	27,068
Title I	30,082
Improving teacher quality	7,549

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

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use, but which will be needed before the end of the current period of designation of depositories.

Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in items (1) and (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
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.

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

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

A. Deposits with Financial Institutions

At June 30, 2015, the carrying amount of all District deposits, including \$1,278,534 in nonnegotiable certificates of deposit, was \$2,671,469. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2015, \$1,213,580 of the District's bank balance of \$2,714,681 was exposed to custodial risk as discussed below, while \$1,501,101 was covered by the FDIC.

Custodial credit risk is the risk that, in the event of bank failure, the District's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the District. The District has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the District to a successful claim by the FDIC.

B. Investments

As of June 30, 2015, the District had the following investments and maturities:

	Investment Maturities	
Investment type	Fair Value	6 months or less
STAR Ohio	\$ 447,739	\$ 447,739

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from interest rates and according to State law, the District's investment policy limits investment portfolio maturities to five years or less.

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Credit Risk: Standard & Poor's has assigned STAR Ohio an AAAM money market rating. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The District's investment policy does not specifically address credit risk beyond requiring the District to only invest in securities authorized by State statute.

Concentration of Credit Risk: The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2015:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
STAR Ohio	\$ 447,739	100.00

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

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net position as of June 30, 2015:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 2,671,469
Investments	<u>447,739</u>
Total	<u>\$ 3,119,208</u>
<u>Cash and investments per statement of net position</u>	
Governmental activities	\$ 2,772,831
Private purpose funds	291,648
Agency fund	<u>54,729</u>
Total	<u>\$ 3,119,208</u>

NOTE 5 - INTERFUND TRANSACTIONS

- A. Interfund transfers for the year ended June 30, 2015, consisted of the following, as reported on the fund financial statements:

<u>Transfers to the nonmajor governmental funds from:</u>	<u>Amount</u>
General fund	<u>\$ 4,665</u>

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

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

- B.** Interfund balances at June 30, 2015 as reported on the fund statements, consist of the following individual interfund loans receivable and payable:

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
Nonmajor governmental	General	<u>\$ 3,800</u>

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

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2015 are reported on the statement of net position.

NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real property and public utility property. Real property tax revenues received in calendar year 2015 represent the collection of calendar year 2014 taxes. Real property taxes received in calendar year 2015 were levied after April 1, 2014, on the assessed values as of January 1, 2014, 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 2015 represent the collection of calendar year 2014 taxes. Public utility real and personal property taxes received in calendar year 2015 became a lien on December 31, 2013, were levied after April 1, 2014, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

The District receives property taxes from Erie County and Sandusky County. The County 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, 2015, are available to finance fiscal year 2015 operations. The amount available as an advance at June 30, 2015 was \$837,810 in the general fund and \$24,162 in the permanent improvement fund (a nonmajor governmental fund). This amount is recorded as revenue. The amount available for advance at June 30, 2014 was \$685,588 in the general fund and \$19,723 in the permanent improvement fund (a nonmajor

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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 delinquent tangible personal property taxes which are measurable as of June 30, 2015 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred inflows.

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

The assessed values upon which the fiscal year 2015 taxes were collected are:

	2014 Second Half Collections		2015 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 163,355,790	94.85	\$ 164,034,610	94.63
Public utility personal	<u>8,863,040</u>	<u>5.15</u>	<u>9,316,970</u>	<u>5.37</u>
Total	<u>\$ 172,218,830</u>	<u>100.00</u>	<u>\$ 173,351,580</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$63.85		\$63.76	

NOTE 7 - RECEIVABLES

Receivables at June 30, 2015 consisted of property taxes, accrued interest and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the statement of net position follows:

Governmental activities:	
Property taxes	\$ 6,099,543
Accrued interest	695
Intergovernmental	<u>85,002</u>
Total	<u>\$ 6,185,240</u>

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

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NOTE 8 - CAPITAL ASSETS

A. Capital asset activity for the fiscal year ended June 30, 2015, was as follows:

Governmental activities:	Balance <u>06/30/14</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>06/30/15</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 103,182	\$ 2,970	_____	\$ 106,152
Total capital assets, non being depreciated	<u>103,182</u>	<u>2,970</u>	_____	<u>106,152</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	1,283,192	53,203	_____	1,336,395
Building and improvements	8,973,463	162,277	_____	9,135,740
Furniture and equipment	840,842	48,821	\$ (16,500)	873,163
Vehicles	1,498,639	77,267	(48,980)	1,526,926
Total capital assets, being depreciated	<u>12,596,136</u>	<u>341,568</u>	<u>(65,480)</u>	<u>12,872,224</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(1,124,272)	(16,407)	_____	(1,140,679)
Building and improvements	(4,499,378)	(164,813)	_____	(4,664,191)
Furniture and equipment	(550,247)	(35,831)	979	(585,099)
Vehicles	(937,795)	(100,143)	44,082	(993,856)
Total accumulated depreciation	<u>(7,111,692)</u>	<u>(317,194)</u>	<u>45,061</u>	<u>(7,383,825)</u>
Governmental activities capital assets, net	<u>\$ 5,587,626</u>	<u>\$ 27,344</u>	<u>\$ (20,419)</u>	<u>\$ 5,594,551</u>

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 118,765
Special	1,438
<u>Support services:</u>	
Administration	13,365
Operations and maintenance	35,838
Pupil transportation	108,341
<u>Operation of non-instructional services:</u>	
Extracurricular	33,025
Food service operations	6,422
Total depreciation expense	<u>\$ 317,194</u>

NOTE 9 - LEASE-PURCHASE AGREEMENT

During a prior fiscal year, the District entered into a lease-purchase agreement with Columbus Regional Airport Authority to finance the construction of 4 classrooms, a gymnasium, computer

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lab, and a library to the Bogart Elementary School Building and improvements to the central office located in that building. The lease meets the criteria of a capital lease as defined by GAAP which defines a lease-purchase generally as one which transfers benefits and risks of ownership to the lessee. The lease was used to fund the District's capital improvement project. Capital assets acquired by the lease-purchase have been capitalized in the amount of \$2,764,450. Accumulated depreciation at June 30, 2015 was \$366,290 leaving a book value of \$2,398,160. Lease-purchase payments have been reflected as debt service expenditures in the general fund. There was \$109,000 in principal payments in fiscal year 2015.

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, 2015.

Fiscal Year Ending June 30,	Total
2016	\$ 198,323
2017	198,449
2018	197,385
2019	197,131
2020	197,645
2021 - 2025	980,769
2026 - 2028	<u>773,177</u>
Total minimum lease payments	2,742,879
Less: amount representing interest	<u>(666,879)</u>
Present value of minimum lease payments	<u>\$ 2,076,000</u>

NOTE 10 - LONG-TERM OBLIGATIONS

A. The District's long-term obligations during the year consist of the following. The net position at June 30, 2014 has been restated as described in Note 3.A.

	Restated Balance Outstanding 06/30/14	Additions	Reductions	Balance Outstanding 06/30/15	Amounts Due in One Year
Lease-purchase agreement	\$ 2,185,000		\$ (109,000)	\$ 2,076,000	\$ 113,000
Net pension liability	18,136,052		(2,862,099)	15,273,953	
Compensated absences	<u>747,607</u>	\$ 131,432	<u>(125,631)</u>	<u>753,408</u>	<u>116,244</u>
Total governmental activities	<u>\$ 21,068,659</u>	<u>\$ 131,432</u>	<u>\$(3,096,730)</u>	<u>\$ 18,103,361</u>	<u>\$ 229,244</u>

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

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Net Pension Liability: See Note 14 for details.

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, 2015, are a voted debt margin of \$15,601,642 and an unvoted debt margin of \$173,352.

NOTE 11 - OPERATING LEASE - LESSOR DISCLOSURE

The District is the lessor of property located in Castalia, Ohio and Vickery, Ohio. The property located in Castalia is within the District's high school footprint and includes office space in the high school and a classroom created in an outbuilding. The property in Vickery is the former Townsend Elementary building. The lease is between the District and Governing Authority of the Townsend Community School. The lease payment is \$1,500 per month for the Castalia property and \$3,750 per month for the Vickery property. Included in the lease agreement is a provision to reimburse the District \$35,000 per year for maintenance of the leased area. The term of the lease is from August 1, 2012 through July 31, 2014. The lease agreement was amended as of August 1, 2013 to accommodate an expansion of the leased area within the high school and to account for the internet access to the Townsend Elementary building.

NOTE 12 - OTHER EMPLOYEE BENEFITS

A. Compensated Absences

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

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

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B. Insurance Benefits

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

NOTE 13 - RISK MANAGEMENT

A. Comprehensive

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. During fiscal year 2015 the District contracted with SORSA to provide insurance coverage in the following amounts:

<u>Limits of Coverage</u>	<u>Carrier</u>	<u>Coverage</u>
General liability:		
Each occurrence	Indiana Insurance	\$ 5,000,000
Aggregate		14,000,000
Fleet:		
Comprehensive Collision	Indiana Insurance	\$12,000,000
Umbrella liability	Indiana Insurance	\$12,000,000
Building and contents	Indiana Insurance	\$50,220,342

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

B. Huron-Erie School Employees Insurance Association

The District has contracted with the Huron-Erie School Employees Insurance Association (Association) to provide medical/surgical, prescription drug and dental insurance benefits for its employees and their covered dependents. The Association is a shared risk pool comprised of several school districts that provide public education within Erie and Huron Counties. The Districts pay monthly contributions that are placed in a common fund from which eligible claims and expenses are paid for employees of participating school districts and their covered dependents. Claims are paid for all participants regardless of claims flow.

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

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the effective date of withdrawal by the Association insurance provider or insurance consultant, or charged to such parties, shall be reimbursed in full by any withdrawing member upon demand of the Association.

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

C. OSBA Workers' Compensation Group Rating Plan

For fiscal year 2015, the District participated in the Ohio School Boards Association Workers' Compensation Group Retrospective Plan (the "Plan"), an insurance purchasing pool (Note 2.A.). The intent of the Plan is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the Plan. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the Plan. Each participant pays its workers' compensation premium to the state based on the rate for the Plan rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the Plan.

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

NOTE 14 - DEFINED BENEFIT PENSION PLANS

Net Pension Liability

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

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

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

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including pension.

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

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

Plan Description - School Employees Retirement System (SERS)

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

Age and service requirements for retirement are as follows:

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

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

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

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

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the anniversary date of the benefit.

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2015, the allocation to pension, death benefits, and Medicare B was 13.18 percent. The remaining 0.82 percent of the 14 percent employer contribution rate was allocated to the Health Care Fund.

The District's contractually required contribution to SERS was \$297,063 for fiscal year 2015.

Plan Description - State Teachers Retirement System (STRS)

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

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

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

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, member contributions are allocated among investment choices by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a

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member on or after age 60 with five years of services. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50.

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

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

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory maximum employee contribution rate was increased one percent July 1, 2014, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2015, plan members were required to contribute 12 percent of their annual covered salary. The District was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2015 contribution rates were equal to the statutory maximum rates.

The District's contractually required contribution to STRS was \$712,297 for fiscal year 2015.

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

The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportionate share of the net pension liability	\$ 3,596,002	\$ 11,677,951	\$ 15,273,953
Proportion of the net pension liability	0.07105400%	0.04801106%	
Pension expense	\$ 209,850	\$ 452,994	\$ 662,844

At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

**MARGARETTA LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(Continued)**

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred outflows of resources			
Differences between expected and actual experience	\$ 30,606	\$ 112,426	\$ 143,032
District contributions subsequent to the measurement date	<u>297,063</u>	<u>712,297</u>	<u>1,009,360</u>
Total deferred outflows of resources	<u>\$ 327,669</u>	<u>\$ 824,723</u>	<u>\$ 1,152,392</u>
Deferred inflows of resources			
Net difference between projected and actual earnings on pension plan investments	<u>\$ 583,641</u>	<u>\$ 2,160,465</u>	<u>\$ 2,744,106</u>
Total deferred inflows of resources	<u>\$ 583,641</u>	<u>\$ 2,160,465</u>	<u>\$ 2,744,106</u>

\$1,009,360 reported as deferred outflows of resources related to pension resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Fiscal Year Ending June 30:			
2016	\$ (138,258)	\$ (512,009)	\$ (650,267)
2017	(138,258)	(512,009)	(650,267)
2018	(138,258)	(512,009)	(650,267)
2019	<u>(138,261)</u>	<u>(512,012)</u>	<u>(650,273)</u>
Total	<u>\$ (553,035)</u>	<u>\$ (2,048,039)</u>	<u>\$ (2,601,074)</u>

Actuarial Assumptions - SERS

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

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

**MARGARETTA LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(Continued)**

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

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2014, are presented below:

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

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

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

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

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

**MARGARETTA LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(Continued)**

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

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

	1% Decrease █ (6.75%)	Current Discount Rate █ (7.75%)	1% Increase █ (8.75%)
District's proportionate share of the net pension liability	\$ 5,130,427	\$ 3,596,002	\$ 2,305,419

Actuarial Assumptions - STRS

The total pension liability in the June 30, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

Actuarial assumptions used in the June 30, 2014, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

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

**MARGARETTA LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(Continued)**

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

Discount Rate The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2014. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2014. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2014.

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

	1% Decrease █ (6.75%)	Current Discount Rate █ (7.75%)	1% Increase █ (8.75%)
District's proportionate share of the net pension liability	\$16,718,261	\$ 11,677,951	\$7,415,546

NOTE 15 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Health Care Plan Description - The District contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 45 purposes, this plan is considered a cost-sharing, multiple-employer, defined benefit other postemployment benefit (OPEB) plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans as well as a prescription drug program. The

**MARGARETTA LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(Continued)**

financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2015, 0.82 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2015, this amount was \$20,450. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2015, the District's surcharge obligation was \$35,834.

The District's contributions for health care for the fiscal years ended June 30, 2015, 2014, and 2013 were \$50,092, \$33,089, and \$33,351, respectively. For fiscal year 2015, 84.92 percent has been contributed, with the balance being reported as pension and postemployment benefits payable. The full amount has been contributed for fiscal years 2014 and 2013.

B. State Teachers Retirement System

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

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2015, STRS did not allocate any employer contributions to post-employment

**MARGARETTA LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(Continued)**

health care. The District's contributions for health care for the fiscal years ended June 30, 2015, 2014, and 2013 were \$0, \$50,401, and \$49,278 respectively. The full amount has been contributed for fiscal years 2015, 2014 and 2013.

NOTE 16 - BUDGETARY BASIS OF ACCOUNTING

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

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

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

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:

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(Continued)**

Net Change in Fund Balance

	<u>General fund</u>
Budget basis	\$ (111,357)
Net adjustment for revenue accruals	(60,236)
Net adjustment for expenditure accruals	(28,771)
Net adjustment for other financing sources/(uses)	1,638
Funds budgeted elsewhere	(12,697)
Adjustment for encumbrances	241,526
GAAP basis	\$ 30,103

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

NOTE 17 - CONTINGENCIES

A. Grants

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

B. Litigation

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

C. Foundation Funding

District Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for the 2014-2015 school year, traditional Districts must comply with minimum hours of instruction, instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the District, which can extend past the fiscal year-end. As of the date of this report, ODE has not finalized the impact of enrollment adjustments to the June 30, 2015 Foundation funding for the District; therefore, the financial statement impact is not determinable at this time. ODE and management believe this will result in either a receivable to or liability of the District.

NOTE 18 - SET-ASIDES

The District is required by State law to annually set-aside certain general fund revenue amounts, as defined by statutory formula, for the acquisition and construction of capital improvements.

**MARGARETTA LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(Continued)**

Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at fiscal year-end. This amount must be carried forward to be used for the same purpose in future years. Expenditures exceeding the set-aside requirement may not be carried forward to the next fiscal year.

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

	<u>Capital Improvements</u>
Set-aside balance June 30, 2014	
Current year set-aside requirement	\$ 204,088
Current year qualifying expenditures	<u>(328,417)</u>
Total	<u>\$ (124,329)</u>
Balance carried forward to fiscal year 2016	<u> </u>
Set-aside balance June 30, 2015	<u> </u>

NOTE 19 - OTHER COMMITMENTS

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

<u>Fund</u>	<u>Year-End Encumbrances</u>
General	\$ 241,526
Nonmajor governmental funds	<u>136,872</u>
Total	<u>\$ 378,398</u>

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

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST TWO FISCAL YEARS

	2014	2013
District's proportion of the net pension liability	0.07105400%	0.07105400%
District's proportionate share of the net pension liability	\$ 3,596,002	\$ 4,225,353
District's covered-employee payroll	\$ 2,064,690	\$ 2,019,790
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	174.17%	209.20%
Plan fiduciary net position as a percentage of the total pension liability	71.70%	65.52%

Note: Information prior to fiscal year 2013 was unavailable.

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

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

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST TWO FISCAL YEARS

	2014	2013
District's proportion of the net pension liability	0.04801106%	0.04801106%
District's proportionate share of the net pension liability	\$ 11,677,951	\$ 13,910,699
District's covered-employee payroll	\$ 4,905,408	\$ 4,927,808
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	238.06%	282.29%
Plan fiduciary net position as a percentage of the total pension liability	74.70%	69.30%

Note: Information prior to fiscal year 2013 was unavailable.

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

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

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST TEN FISCAL YEARS

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Contractually required contribution	\$ 297,063	\$ 286,166	\$ 279,539	\$ 270,065
Contributions in relation to the contractually required contribution	<u>(297,063)</u>	<u>(286,166)</u>	<u>(279,539)</u>	<u>(270,065)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 2,253,892	\$ 2,064,690	\$ 2,019,790	\$ 2,007,918
Contributions as a percentage of covered-employee payroll	13.18%	13.86%	13.84%	13.45%

<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
\$ 243,582	\$ 261,459	\$ 197,753	\$ 209,517	\$ 221,763	\$ 221,820
<u>(243,582)</u>	<u>(261,459)</u>	<u>(197,753)</u>	<u>(209,517)</u>	<u>(221,763)</u>	<u>(221,820)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 1,937,804	\$ 1,931,012	\$ 2,009,685	\$ 2,133,574	\$ 2,076,433	\$ 2,096,597
12.57%	13.54%	9.84%	9.82%	10.68%	10.58%

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

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST TEN FISCAL YEARS

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Contractually required contribution	\$ 712,297	\$ 637,703	\$ 640,615	\$ 690,654
Contributions in relation to the contractually required contribution	<u>(712,297)</u>	<u>(637,703)</u>	<u>(640,615)</u>	<u>(690,654)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 5,087,836	\$ 4,905,408	\$ 4,927,808	\$ 5,312,723
Contributions as a percentage of covered-employee payroll	14.00%	13.00%	13.00%	13.00%

<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
\$ 709,031	\$ 706,687	\$ 773,787	\$ 752,565	\$ 757,456	\$ 747,394
<u>(709,031)</u>	<u>(706,687)</u>	<u>(773,787)</u>	<u>(752,565)</u>	<u>(757,456)</u>	<u>(747,394)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 5,454,085	\$ 5,436,054	\$ 5,952,208	\$ 5,788,962	\$ 5,826,585	\$ 5,749,185
13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

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

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

Information about factors that significantly affect trends in the amounts reported in the schedules should be presented as notes to the schedule.

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal year 2014 and 2015.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal year 2014 and 2015. See the notes to the basic financial statements for the methods and assumptions in this calculation.

STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal year 2014 and 2015.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal year 2014 and 2015. See the notes to the basic financial statements for the methods and assumptions in this calculation.

**MARGARETTA LOCAL SCHOOL DISTRICT
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**SCHEDULE OF FEDERAL AWARD RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

FEDERAL GRANTOR <i>Pass Through Grantor</i>	Federal CFDA Number	Receipts	Expenditures
Program Title			
UNITED STATES DEPARTMENT OF AGRICULTURE			
<i>Passed Through Ohio Department of Education</i>			
<u>Nutrition Cluster:</u>			
School Breakfast Program	10.553	\$31,060	\$31,060
National School Lunch Program			
Cash Assistance	10.555	208,126	208,126
Non-cash Assistance (Food Distribution)	10.555	38,456	38,456
		<u>246,582</u>	<u>246,582</u>
<i>Total - National School Lunch Program</i>			
Total United States Department of Agriculture		<u>277,642</u>	<u>277,642</u>
UNITED STATES DEPARTMENT OF EDUCATION			
<i>Passed Through Ohio Department of Education</i>			
<u>Special Education Cluster:</u>			
Special Education - Grants to States (IDEA, Part B)	84.027	230,837	235,059
Special Education - Preschool Grants (IDEA Preschool)	84.173	8,608	8,721
<i>Total - Special Education Cluster (IDEA)</i>		<u>239,445</u>	<u>243,780</u>
Title I Grants to Local Educational Agencies (Title I, Part A of the ESEA)	84.010	180,722	194,293
Improving Teacher Quality State Grants	84.367	46,289	46,242
ARRA - Race to the Top	84.395	9,447	8,961
		<u>475,903</u>	<u>493,276</u>
Total United States Department of Education			
Total Federal Financial Assistance		<u><u>\$753,545</u></u>	<u><u>\$770,918</u></u>

The accompanying notes are an integral part of this schedule.

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - CHILD NUTRITION CLUSTER

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

NOTE C – FOOD DONATION PROGRAM

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



Dave Yost • Auditor of State

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

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

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Margaretta Local School District, Erie County, Ohio (the District) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 28, 2016, wherein we noted the District adopted new Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and also GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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



Dave Yost
Auditor of State

Columbus, Ohio

March 28, 2016



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

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

To the Board of Education:

Report on Compliance for the Major Federal Program

We have audited Margaretta Local School District, Erie County, Ohio's (the District) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect the District's major federal program for the year ended June 30, 2015. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the District's major federal program.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to opine on the District's compliance for the District's major federal program based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our compliance opinion on the District's major program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on the Major Federal Program

In our opinion, Margaretta Local School District complied, in all material respects with the compliance requirements referred to above that could directly and materially affect its major federal program for the year ended June 30, 2015.

Report on Internal Control Over Compliance

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

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

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

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



Dave Yost
Auditor of State

Columbus, Ohio

March 28, 2016

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2015**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unmodified
<i>(d)(1)(ii)</i>	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weaknesses reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510(a)?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Special Education Cluster: Special Education – Grants to States CFDA #84.027 and Special Education – Preschool Grant CFDA #84.173
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

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

None

3. FINDINGS 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
APRIL 7, 2016**