



**Auditor of State
Betty Montgomery**

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANT'S REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Margaretta Local School District, Erie County, (the District), as of and for the year ended June 30, 2003, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the Margaretta Local School District, Erie County, Ohio, as of June 30, 2003, and the respective changes in financial position, and the respective budgetary comparison for the General Fund thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended June 30, 2003, the District implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 18, 2004, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussions and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to form opinions on the financial statements that collectively comprise the District's basic financial statements. The federal awards expenditure schedule is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. We subjected the federal awards expenditure schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Betty Montgomery
Auditor of State

May 18, 2004

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

The discussion and analysis of the Margarett Local School District's (the District) financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2003. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2003 are as follows:

- In total, net assets of governmental activities increased \$718,450 which represents a 12.58 percent increase from 2002.
- General revenues accounted for \$11,542,981 in revenue or 88.86 percent of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$1,446,971 or 11.14 percent of total revenues of \$12,989,952.
- The District had \$12,271,502 in expenses related to governmental activities; only \$1,446,971 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$11,542,981 were adequate to provide for these programs.
- The District's only major governmental fund is the general fund. The general fund had \$11,494,293 in revenues and \$10,925,625 in expenditures and other financing uses. During fiscal 2003, the general fund's fund balance increased \$568,668 from \$3,899,262 to \$4,467,930.

Using the Basic Financial Statements (BFS)

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

The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

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 a major fund.

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2003?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets* and *liabilities* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

In the Statement of Net Assets and the Statement of Activities, the Governmental Activities include the District's programs and services, including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities, and food service operations.

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major governmental fund begins on page 10. 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 only major governmental fund is the general fund.

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

Governmental Funds

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

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private purpose trust fund. The District also acts in a trustee capacity as an agent for individuals. These activities are reported in an agency fund. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 20 and 21. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

The District as a Whole

Recall that the Statement of Net Assets provides the perspective of the District as a whole. This is the first year for government-wide financial statements using the full accrual basis of accounting, therefore a comparison with prior years is not available. A comparative analysis will be provided in future years when prior year information is available.

The table below provides a summary of the District's net assets for 2003.

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

Net Assets

	Governmental Activities <u>2003</u>
Assets	
Current and other assets	\$ 11,102,858
Capital assets	<u>2,534,377</u>
<i>Total assets</i>	<u>13,637,235</u>
 Liabilities	
Current liabilities	6,436,399
Long-term liabilities	<u>772,198</u>
<i>Total liabilities</i>	<u>7,208,597</u>
 Net Assets	
Invested in capital assets, net of related debt	2,534,377
Unrestricted	<u>3,894,261</u>
<i>Total net assets</i>	<u><u>\$ 6,428,638</u></u>

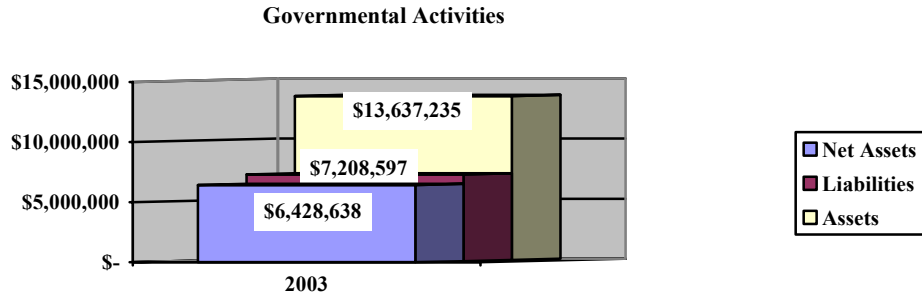
Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2003, the District's assets exceeded liabilities by \$6,428,638.

At year-end, capital assets represented 18.58 percent of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2003, were \$2,534,377. 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. The District has no debt outstanding as of June 30, 2003.

The remaining balance of unrestricted net assets of \$3,894,261 may be used to meet the District's ongoing obligations to the students and creditors.

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**



The table below shows the change in net assets for fiscal year 2003. Since this is the first year the District has prepared government-wide financial statements using the full accrual basis of accounting, revenue and expense comparisons to fiscal year 2002 are not available. A comparative analysis will be provided in future years when prior year information is available.

Change in Net Assets

	<u>Governmental Activities 2003</u>
Revenues	
Program revenues:	
Charges for services and sales	\$ 901,790
Operating grants and contributions	545,181
General revenues:	
Property taxes	6,206,924
Grants and entitlements	5,199,442
Investment earnings	108,685
Other	27,930
<i>Total revenues</i>	<u>12,989,952</u>

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

Change in Net Assets
(Continued)

	Governmental Activities <u>2003</u>
Expenses	
Program expenses:	
Instruction:	
Regular	5,002,130
Special	1,162,698
Vocational	341,950
Other	2,501
Support services:	
Pupil	535,559
Instructional staff	581,546
Board of education	63,892
Administration	939,480
Fiscal	357,612
Operations and maintenance	1,295,705
Pupil transportation	792,325
Operations of non-instructional services	179,743
Extracurricular activities	414,840
Food service operations	577,112
Intergovernmental pass through	<u>24,409</u>
 <i>Total expenses</i>	 <u>12,271,502</u>
 <i>Increase in net assets</i>	 <u>\$ 718,450</u>

Governmental Activities

Net assets of the District's governmental activities increased by \$718,450. The increase in net assets is attributed to a decrease in expenditures in the General fund. Total governmental expenses of \$12,271,502 were offset by program revenues of \$1,446,971 and general revenues of \$11,542,981. Program revenues supported 11.79 percent of the total governmental expenses.

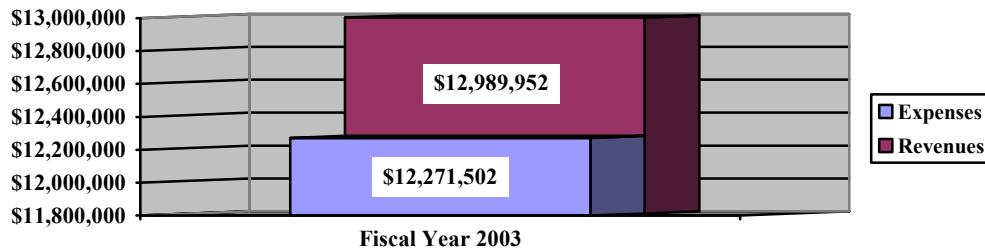
**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

The primary sources of revenue for governmental activities are derived from property taxes and grants and entitlements. These two revenue sources represent 87.79 percent 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 2003.

Governmental Activities - Revenues and Expenses



The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements. Comparisons to 2002 have not been presented since they are not available.

Governmental Activities

Program expenses	<u>Total Cost of Services 2003</u>	<u>Net Cost of Services 2003</u>
Instruction:		
Regular	\$ 5,002,130	\$ (4,783,230)
Special	1,162,698	(991,230)
Vocational	341,950	(328,205)
Other	2,501	(326)

(Continued)

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

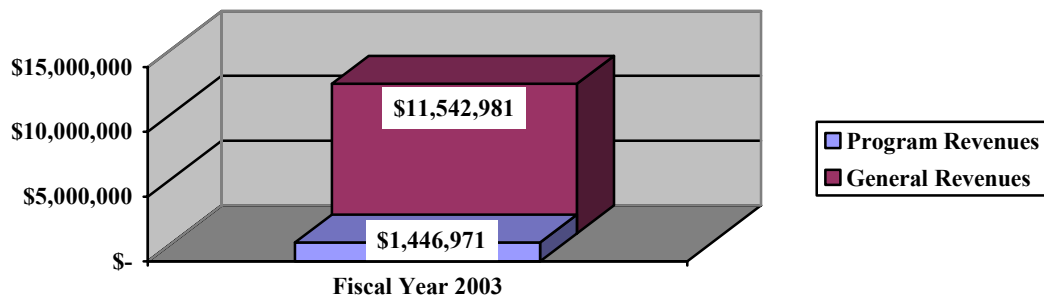
**Governmental Activities
(Continued)**

	Total Cost of Services 2003	Net Cost of Services 2003
Support services:		
Pupil	535,559	(404,811)
Instructional staff	581,546	(569,733)
Board of education	63,892	(63,892)
Administration	939,480	(939,480)
Fiscal	357,612	(357,612)
Operations and maintenance	1,295,705	(1,295,705)
Pupil transportation	792,325	(785,935)
Operations of non-instructional services	179,743	(179,743)
Extracurricular activities	414,840	(61,518)
Food service operations	577,112	(38,702)
Intergovernmental pass through	24,409	(24,409)
<i>Total expenses</i>	<u>\$ 12,271,502</u>	<u>\$ (10,824,531)</u>

The dependence upon tax and other general revenues for governmental activities is apparent, 93.76 percent of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 88.21 percent. The District's taxpayers, 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 year 2003.

Governmental Activities - General and Program Revenues



**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

The District's Funds

The District's governmental funds (as presented on the balance sheet on page 15) reported a combined fund balance of \$4,445,984, which is higher than last year's total of \$4,024,168, which have been restated as described in Note 3.A to the basic financial statements. The increase in fund balance is attributed to the decrease in expenditures in the General fund. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2003 and 2002.

	Fund Balance June 30, 2003	Restated Fund Balance June 30, 2002	Increase (Decrease)
General	\$ 4,467,930	\$ 3,899,262	\$ 568,668
Other Governmental	(21,946)	124,906	(146,852)
Total	\$ 4,445,984	\$ 4,024,168	\$ 421,816

General Fund

The District's general fund balance increased by \$568,668 (after a restatement to the June 30, 2002, cash balance which is detailed in Note 3.A. to the basic financial statement). The increase in fund balance can be attributed to a decrease in expenditures due to budget cuts. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

	2003 Amount	Restated 2002 Amount	Percentage Change
Revenues			
Taxes	\$ 5,991,307	\$ 6,374,415	(6.01) %
Tuition	99,383	51,274	93.83 %
Earnings on investments	109,143	224,481	(51.38) %
Extracurricular	175	160	9.38 %
Intergovernmental	5,178,909	4,909,231	5.49 %
Other revenues	115,376	137,363	(16.01) %
Total	\$ 11,494,293	\$ 11,696,924	(1.73) %

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

	2003 Amount	Restated 2002 Amount	Percentage Change
Expenditures			
Instruction	\$ 6,097,981	\$ 6,850,376	10.98 %
Support services	4,331,587	4,530,062	(4.38) %
Operation of non-instructional services	16,427	17,568	(6.49) %
Extracurricular activities	195,574	198,160	(1.31) %
Facilities acquisition and construction	2,940	21,894	(86.57) %
Intergovernmental pass-through	24,409	19,219	27.00 %
<i>Total</i>	<u>\$ 10,668,918</u>	<u>\$ 11,637,279</u>	(8.32) %

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 2003, the District did not amend its general fund budget. For the general fund, original and final budgeted revenues were \$11,144,093. Actual revenues and other financing sources for fiscal 2003 was \$11,251,227. This represents a \$107,134 increase over final budgeted revenues. This increase is primarily due to conservative tax and intergovernmental estimates in the original and final budgeted amounts.

General fund original appropriations (appropriated expenditures plus other financing uses) of \$11,269,164 were increased to \$11,269,226 in the final budget. The actual budget basis expenditures and other financing uses for fiscal year 2003 totaled \$11,259,750, which was \$9,476 less than the final budget appropriations.

Capital Assets

At the end of fiscal 2003, the District had \$2,534,377 invested in land, land improvements, building and improvements, furniture and equipment, and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal 2003 balances compared to 2002:

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

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

	Governmental Activities	
	2003	2002
Land	\$ 211,027	\$ 211,027
Land improvements	88,184	103,847
Building and improvements	1,323,410	913,234
Furniture and equipment	308,553	394,564
Vehicles	603,203	589,403
<i>Total</i>	\$ 2,534,377	\$ 2,212,075

The primary increase occurred in building and improvements, which includes the locker room addition at the High School. The District also acquired \$126,345 in new vehicles during fiscal 2003. Total additions to capital assets for 2003 were \$630,585. The overall increase in capital assets is \$322,302.

Current Financial Related Activities

State funding continues to be reduced and is compounded by a slight enrollment decline. For the year ended December 31, 2003, there was a tri-annual update for Erie County and re-appraisal in Sandusky County resulting in increased real estate valuations. Although this will generate additional local revenue, the District will eventually lose \$1,500,000 in state funding because of the valuation increase. This is because the state funding formula assumes the District is receiving more local revenue even though the local amount is limited by house bill 920. This is often referred to as "phantom revenue" in Ohio school finance circles. We are projecting little to no increase in state funding in spite of increased per pupil funding and increased parity aid.

The state legislature continues to impact our business tax base. Phasing out the inventory portion of Personal Property Tax will reduce revenue over the next 5 years. Our largest taxpayer is currently appealing to the Ohio Board of Tax Appeals to reduce their equipment valuation. This adversely affects our long range planning since we do not have firm valuations to work with.

Currently the district is evaluating school facilities and deciding if the community is supportive of a bond issue to replace/remodel our aging buildings.

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

The district is also evaluating implementing Open Enrollment as a means of increasing state funding, so long as expenses are not increased. No new staff is anticipated if enrollment limits are adhered to. If open enrollment is not implemented, staff reductions will be needed to compensate for reduced enrollments. Hopefully, this can be achieved through attrition.

Contacting the District's Financial Management

This financial report is designed to provide our citizen's 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. John Coffman, Treasurer, Margarett Local School District, 305 S. Washington Street, Castalia, Ohio 44824.

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

STATEMENT OF NET ASSETS
JUNE 30, 2003

	Governmental Activities
Assets	
Equity in pooled cash and cash equivalents	\$ 5,293,143
Receivables:	
Taxes	5,575,651
Accounts	300
Intergovernmental	166,182
Accrued interest	3,735
Prepayments	43,765
Materials and supplies inventory	20,082
Capital assets:	
Land	211,027
Depreciable capital assets, net	<u>2,323,350</u>
<i>Total capital assets</i>	<u>2,534,377</u>
<i>Total assets</i>	<u>13,637,235</u>
Liabilities	
Accounts payable	206,967
Accrued wages and benefits	1,092,460
Pension obligation payable	268,911
Intergovernmental payable	43,669
Deferred revenue	4,824,392
Long-term liabilities:	
Due within one year	86,984
Due within more than one year	<u>685,214</u>
Total liabilities	<u>7,208,597</u>
Net Assets	
Invested in capital assets, net of related debt	2,534,377
Unrestricted	<u>3,894,261</u>
<i>Total net assets</i>	<u><u>\$ 6,428,638</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	Expenses
Governmental activities	
Instruction:	
Regular	\$ 5,002,130
Special	1,162,698
Vocational	341,950
Other	2,501
Support services:	
Pupil	535,559
Instructional staff	581,546
Board of education	63,892
Administration	939,480
Fiscal	357,612
Operations and maintenance	1,295,705
Pupil transportation	792,325
Operation of non-instructional services	179,743
Extracurricular activities	414,840
Food service operations	577,112
Intergovernmental pass-through	24,409
<i>Totals</i>	\$ 12,271,502

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

Program Revenues		Net (Expense)
Charges for	Operating	Revenue and
Services	Grants and	Changes in
and Sales	Contributions	Net Assets
		Governmental
		Activities
\$ 171,294	\$ 47,606	\$ (4,783,230)
-	171,468	(991,230)
-	13,745	(328,205)
175	2,000	(326)
-	130,748	(404,811)
-	11,813	(569,733)
-	-	(63,892)
-	-	(939,480)
-	-	(357,612)
-	-	(1,295,705)
6,390	-	(785,935)
-	-	(179,743)
353,322	-	(61,518)
370,609	167,801	(38,702)
-	-	(24,409)
<u>\$ 901,790</u>	<u>\$ 545,181</u>	<u>(10,824,531)</u>

General Revenues

Property taxes levied for:

General purposes 5,917,014

Capital projects 289,910

Grants and entitlements not restricted

to specific programs 5,199,442

Investment earnings 108,685

Miscellaneous 27,930

Total general revenues 11,542,981

Change in net assets 718,450

Net assets at beginning of year (restated) 5,710,188

Net assets at end of year \$ 6,428,638

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2003**

	General	Other Governmental Funds	Total Governmental Funds
Assets			
Equity in pooled cash and cash equivalents	\$ 5,138,837	\$ 154,306	\$ 5,293,143
Receivables:			
Taxes	5,395,846	179,805	5,575,651
Accounts	173	127	300
Intergovernmental	-	166,182	166,182
Accrued interest	3,735	-	3,735
Due from other funds	202,281	-	202,281
Prepayments	43,765	-	43,765
Materials and supplies	-	20,082	20,082
<i>Total assets</i>	<u>\$ 10,784,637</u>	<u>\$ 520,502</u>	<u>\$ 11,305,139</u>
Liabilities			
Accounts payable	\$ 167,112	\$ 39,855	\$ 206,967
Accrued wages and benefits	1,020,405	72,055	1,092,460
Compensated absences payable	41,471	1,520	42,991
Pension obligation payable	153,288	10,023	163,311
Intergovernmental payable	40,926	2,743	43,669
Due to other funds	-	202,281	202,281
Deferred revenue	4,893,505	213,971	5,107,476
<i>Total liabilities</i>	<u>6,316,707</u>	<u>542,448</u>	<u>6,859,155</u>
Fund Balances			
Reserved for encumbrances	148,872	32,228	181,100
Reserved for materials and supplies inventory	-	20,082	20,082
Reserved for property tax unavailable for appropriation	504,793	17,231	522,024
Reserved for prepayments	43,765	-	43,765
Unreserved, undesignated (deficit), reported in:			
General fund	3,770,500	-	3,770,500
Special revenue funds	-	85,821	85,821
Capital projects funds	-	(177,308)	(177,308)
<i>Total fund balances</i>	<u>4,467,930</u>	<u>(21,946)</u>	<u>4,445,984</u>
<i>Total liabilities and fund balances</i>	<u>\$ 10,784,637</u>	<u>\$ 520,502</u>	<u>\$ 11,305,139</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2003

Total governmental fund balances		\$ 4,445,984
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		2,534,377
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Taxes	\$ 222,133	
Interest revenue	2,452	
Intergovernmental revenue	<u>58,499</u>	
Total		283,084
Long-term liabilities, including notes payable, are not due and payable in the current period and therefore are not reported in the funds.		
Compensated absences	729,207	
Pension obligation payable	<u>105,600</u>	
Total		<u>(834,807)</u>
<i>Net assets of governmental activities</i>		<u><u>\$ 6,428,638</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues			
From local sources:			
Taxes	\$ 5,991,307	\$ 199,483	\$ 6,190,790
Tuition	99,383	-	99,383
Charges for services	-	370,482	370,482
Earnings on investments	109,143	2,048	111,191
Extracurricular	175	342,527	342,702
Other local revenues	115,376	1,777	117,153
Intergovernmental - State	5,178,909	68,448	5,247,357
Intergovernmental - Federal	-	461,537	461,537
<i>Total revenue</i>	<u>11,494,293</u>	<u>1,446,302</u>	<u>12,940,595</u>
Expenditures			
Current:			
Instruction:			
Regular	4,830,938	147,777	4,978,715
Special	943,595	182,853	1,126,448
Vocational	322,981	12,040	335,021
Other	467	2,034	2,501
Support Services:			
Pupil	389,961	142,886	532,847
Instructional staff	549,200	29,596	578,796
Board of education	63,607	285	63,892
Administration	923,701	-	923,701
Fiscal	348,234	3,165	351,399
Operations and maintenance	1,273,933	4,003	1,277,936
Pupil transportation	782,951	-	782,951

(Continued)

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Food service operations	-	530,403	530,403
Operation of non-instructional services	16,427	163,252	179,679
Extracurricular activities	195,574	164,037	359,611
Facilities acquisition and construction	2,940	468,844	471,784
Intergovernmental pass-through	24,409	-	24,409
<i>Total expenditures</i>	<u>10,668,918</u>	<u>1,851,175</u>	<u>12,520,093</u>
<i>Excess of revenues under expenditures</i>	<u>825,375</u>	<u>(404,873)</u>	<u>420,502</u>
Other financing sources (uses)			
Transfers in	-	256,707	256,707
Transfers (out)	(256,707)	-	(256,707)
<i>Total other financing sources (uses)</i>	<u>(256,707)</u>	<u>256,707</u>	<u>-</u>
<i>Net change in fund balances</i>	568,668	(148,166)	420,502
<i>Fund balances at beginning of year (restated)</i>	3,899,262	124,906	4,024,168
Increase in reserve for inventory	-	1,314	1,314
<i>Fund balances at end of year</i>	<u>\$ 4,467,930</u>	<u>\$ (21,946)</u>	<u>\$ 4,445,984</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

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, 2003

Net change in fund balances - total governmental funds \$ 420,502

*Amounts reported for governmental activities in the
statement of activities are different because:*

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. This is the amount by which capital
outlays exceed depreciation expense in the current period. 345,342

The net effect of various miscellaneous transactions involving
capital assets (i.e., sales, disposals, trade-ins, and donations)
is to decrease net assets. (23,040)

Governmental funds report expenditures for inventory when
purchased, however, in the statement of activities they are
reported as an expense when consumed. 1,314

Revenues in the statement of activities that do not provide
current financial resources are not reported as revenues in
the funds. 13,579

Some expenses reported in the statement of activities,
such as compensated absences and pension obligations
do not require the use of current financial resources and
therefore are not reported as expenditures in governmental
funds. (39,247)

Change in net assets of governmental activities \$ 718,450

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL COMPARISON (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
From local sources:				
Taxes	\$ 5,677,718	\$ 5,677,718	\$ 5,723,167	\$ 45,449
Tuition	98,594	98,594	99,383	789
Earnings on investments	112,008	112,008	112,960	952
Extracurricular	-	-	175	175
Other local revenues	117,990	117,990	118,934	944
Intergovernmental - State	5,137,783	5,137,783	5,178,909	41,126
<i>Total revenue</i>	<u>11,144,093</u>	<u>11,144,093</u>	<u>11,233,528</u>	<u>89,435</u>
Expenditures				
Current:				
Instruction:				
Regular	4,866,797	4,829,172	4,836,433	(7,261)
Special	1,051,794	976,619	968,582	8,037
Vocational	335,813	338,763	321,485	17,278
Other	-	62	468	(406)
Support Services:				
Pupil	426,168	436,067	426,071	9,996
Instructional staff	532,500	549,000	546,149	2,851
Board of education	144,600	93,200	84,705	8,495
Administration	928,040	954,639	948,368	6,271
Fiscal	395,518	401,868	385,759	16,109
Operations and maintenance	1,406,395	1,502,396	1,447,405	54,991
Pupil transportation	816,898	818,148	780,645	37,503

(Continued)

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL COMPARISON (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Operation of non-instructional services	19,000	19,000	16,394	2,606
Extracurricular activities	196,300	198,251	194,937	3,314
Facilities acquisition and construction	3,341	3,691	3,675	16
Intergovernmental pass-through	25,000	25,000	24,409	591
<i>Total expenditures</i>	<u>11,148,164</u>	<u>11,145,876</u>	<u>10,985,485</u>	<u>160,391</u>
<i>Excess of revenues over (under) expenditures</i>	<u>(4,071)</u>	<u>(1,783)</u>	<u>248,043</u>	<u>249,826</u>
Other financing sources (uses)				
Refund of prior year expenditure	-	-	139	139
Transfers in	-	-	17,560	17,560
Transfers (out)	(121,000)	(123,350)	(274,265)	(150,915)
<i>Total other financing sources (uses)</i>	<u>(121,000)</u>	<u>(123,350)</u>	<u>(256,566)</u>	<u>(133,216)</u>
<i>Net change in fund balance</i>	<u>(125,071)</u>	<u>(125,133)</u>	<u>(8,523)</u>	<u>116,610</u>
<i>Fund balance at beginning of year (restated)</i>	4,768,524	4,768,524	4,768,524	-
Prior year encumbrances appropriated	165,826	165,826	165,826	-
<i>Fund balance at end of year</i>	<u>\$ 4,809,279</u>	<u>\$ 4,809,217</u>	<u>\$ 4,925,827</u>	<u>\$ 116,610</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

STATEMENT OF NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2003

	Private-Purpose Trust	
	Scholarship	Agency
Assets		
Equity in pooled cash and cash equivalents	\$ 282,220	\$ 44,376
<i>Total assets</i>	282,220	44,376
Liabilities		
Accounts payable	-	351
Due to students	-	44,025
<i>Total liabilities</i>	-	\$ 44,376
Net Assets		
Held in trust for scholarships	282,220	
<i>Total net assets</i>	\$ 282,220	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	Private-Purpose Trust	Scholarship
	<hr/>	<hr/>
Additions		
Interest	\$ 8,750	
Gifts and contributions		45,378
		<hr/>
<i>Total additions</i>		54,128
		<hr/>
Deductions		
Scholarships awarded		21,064
		<hr/>
<i>Change in net assets</i>		33,064
<i>Net assets at beginning of year (restated)</i>		249,156
		<hr/>
<i>Net assets at end of year</i>	\$	282,220
		<hr/> <hr/>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

1. DESCRIPTION OF THE SCHOOL DISTRICT

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

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

The District is the 372nd largest in the state of Ohio (among 740 public and community school districts) in terms of enrollment. It currently operates 2 elementary schools and 1 high school. The District employs 73 non-certificated employees and 97 certificated (including administrative) employees to provide services to approximately 1,494 students.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, *The Financial Reporting Entity*. The reporting entity is composed of the primary government, component units and other organization that are included to ensure that the basic financial statements of the District are not misleading. 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, foods service, preschool and student related activities of the District.

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

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 organizations' government 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 to organization's resources; (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. Based upon the application of these criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government). The following organizations are described due to their relationship to the District:

JOINTLY GOVERNED ORGANIZATIONS

Bay Area Council of Governments

The Bay Area Council of Governments (BACG) is a jointly governed organization. Members of the BACG consist of 26 school districts representing 7 counties (Ottawa, Sandusky, Seneca, Erie, Huron, Wood, and Crawford). The BACG was formed for the purpose of purchasing goods and services at a lower cost. The items currently being purchased through the council of governments are natural gas and insurance. The only cost to the District is an administrative charge if it participates in purchasing through the BACG. The membership of BACG consists of the superintendent of each participating school district. The Board of Directors of the BACG consists of one elected representative of each county, the superintendent of the fiscal agent and two non-voting members (administrator and fiscal agent). Members of the Board serve staggered two-year terms. Financial information can be obtained by contacting the Erie-Huron-Ottawa ESC, which serves as fiscal agent, at 2900 South Columbus Avenue, Sandusky, Ohio 44870.

Northern Ohio Educational Computer Association

The Northern Ohio Educational Computer Association (NOECA) is a jointly governed organization, which is a computer consortium. NOECA is an association of 41 public school districts formed for the purpose of applying modern technology (with the aid of computers and other electronic equipment) to administrative and instructional functions

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

among member school district. The NOECA Board of Directors consists of two representatives from each county in which participating school districts are located, the chairman of each of the operating committees, and a representative from the fiscal agent. Financial information can be obtained from Betty Schwiefert, who serves as Controller, 2900 South Columbus Avenue, Sandusky, Ohio 44870.

PUBLIC ENTITY RISK POOLS

Ohio School Boards Association Workers' Compensation Group Rating Plan

The District participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Ohio School Boards Association Workers' Compensation Group Rating Plan (the "Plan") was established through the Ohio School Boards Association (OSBA) as a group purchasing pool.

The Plan's business and affairs are conducted by a three member Board of Directors consisting of the President, the President-Elect, and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the Plan. Each year, the participating school districts pay an enrollment fee to the Plan to cover the costs of administering the program.

Huron-Erie School Employees Insurance Association

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

B. Fund Accounting

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

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

GOVERNMENTAL FUNDS

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

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

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

PROPRIETARY FUNDS

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

FIDUCIARY FUNDS

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

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

C. Measurement Focus

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

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

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

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

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

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

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

D. Basis of Accounting

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

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

Deferred Revenue - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of June 30, 2003, but which were levied to finance fiscal year 2004 operation, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair 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. Allocation 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 primary level of budgetary control is at the fund level. 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.

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

Public hearings are publicized and conducted to obtain taxpayers' comments. The express purpose of this budget document is to reflect the need for existing (or increased tax rates). By no later than January 20, the Board-adopted budget is filed with Erie County Budget Commission for rate determination.

Estimated Resources

By April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commissions' Certificate of Estimated Resources, which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered cash balances from the preceding year. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statements reflect the amounts in the final amended Certificate 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 fund level 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 District did not properly limit appropriations to estimated resources, or limit expenditures to amounts appropriated as required by the Ohio Revised Code.

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

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 that 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. The District did not properly certify the availability of funds prior to expenditures being incurred as required by the Ohio Revised Code.

Encumbrance accounting is utilized with District funds in the normal course of operations, for purchase orders and contract related expenditures. An encumbrance is a reserve on the available spending authority due to commitment for a future expenditure and does not represent a liability. For governmental fund types, encumbrances outstanding at year-end appear as a reserve to the fund balance on a GAAP basis and as the equivalent of expenditures on a non-GAAP budgetary basis in order to demonstrate legal compliance. Note 14 provides a reconciliation of the budgetary and GAAP basis of accounting.

F. Cash and Investments

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

During fiscal year 2003, investments were limited to nonnegotiable certificates of deposits, federal agency securities, 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 reported at cost.

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The District has invested funds in STAR Ohio during fiscal 2003. 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 share price which is the price the investment could be sold for on June 30, 2003.

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 2003 amounted to \$109,143, none of which was 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 Treasurer's investment account at fiscal year-end is provided in Note 4.

G. Inventory

On government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used.

On fund financial statements, inventories of governmental funds are stated at cost. For all funds, cost is determined on a first-in, first-out basis. Inventory in governmental funds consists of expendable supplies held for consumption, donated food, and purchased food. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased.

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

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(Continued)

of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of five thousand dollars. 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	20 years
Buildings and improvements	20 - 40 years
Furniture and equipment	5 - 20 years
Vehicles	6 - 10 years

I. Interfund Balances

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

J. Compensated Absences

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

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that

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the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at the balance sheet date by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees age fifty or greater with at least ten years of service and all employees with at least twenty years of service regardless of their age were considered expected to become eligible in accordance with GASB Statement No. 16.

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

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 contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year.

L. Fund Balance Reserves

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

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(Continued)

M. Net Assets

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

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

N. Prepayments

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These items are reported as assets on the balance sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed. At fiscal year-end, because prepayments are not available to finance future governmental fund expenditures, the fund balance is reserved by an amount equal to the carrying value of the asset on the fund financial statements.

O. Estimates

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

P. 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 basis financial statements.

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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 2003.

3. ACCOUNTABILITY AND COMPLIANCE

A. Changes in Accounting Principle

For the fiscal year ended June 30, 2003, the District has presented for the first time its basic financial statements in accordance with generally accepted accounting principles (GAAP). In conjunction with this presentation, the District has converted its governmental funds to the modified accrual basis of accounting and its private-purpose trust fund to the accrual basis of accounting. This conversion required certain adjustments be recorded at June 30, 2002 cash fund balances as previously reported to reflect the prior years effect of adopting these new accounting principles. Certain funds previously reported as enterprise funds have been reclassified and are now part of other nonmajor governmental funds. The restatement to the opening balances is as follows:

	Cash Fund Balance at June 30, 2002	Adjustments	Restated Fund Balance/ Fund Equity July 1, 2002
Governmental Funds:			
General	\$ 4,924,052	\$ (1,024,790)	\$ 3,899,262
Special Revenue	172,004	2,183	174,187
Capital Projects	16,699	(65,980)	(49,281)
<i>Total governmental funds</i>	\$ 5,112,755	\$ (1,088,587)	\$ 4,024,168

(Continued)

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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	Cash Fund Balance at June 30, 2002	Adjustments	Restated Fund Balance/ Fund Equity July 1, 2002
Proprietary Funds:			
Enterprise	\$ 53,538	\$ (53,538)	\$ -
<i>Total proprietary funds</i>	<u>\$ 53,538</u>	<u>\$ (53,538)</u>	<u>\$ -</u>
Fiduciary Funds:			
Expendable Trust	\$ 17,361	\$ (17,361)	\$ -
Nonexpendable trust	239,715	(239,715)	-
Agency	62,497	(62,497)	-
Private Purpose Trust	-	249,156	249,156
<i>Total fiduciary funds</i>	<u>\$ 319,573</u>	<u>\$ (70,417)</u>	<u>\$ 249,156</u>

GAAP creates new basic financial statements for reporting on the District's financial activities. The basic financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Non-major funds are presented in total in one column.

The government-wide financial statements show the District's programs for governmental activities. The beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at June 30, 2002, caused by the conversion to the accrual basis of accounting.

As stated previously, GAAP requires governmental funds to be presented as either major or nonmajor funds. The restated fund balances of the governmental funds are classified as follows for reporting on the government-wide financial statements:

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FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

	Major	Nonmajor	Total
Governmental Funds:			
General	\$ 3,899,262	\$ -	\$ 3,899,262
Special Revenue	-	174,187	174,187
Capital Projects	-	(49,281)	(49,281)
<i>Total governmental fund balance</i>	<u>\$ 3,899,262</u>	<u>\$ 124,906</u>	<u>\$ 4,024,168</u>

The transition from governmental fund balance to net assets of the governmental activities is presented as follows:

	Total
Adjusted fund balance, June 30, 2002	\$ 4,024,168
GASB 34 adjustments:	
Long-term (deferred) assets	269,505
Capital assets	2,212,075
Long-term liabilities	(795,560)
Governmental activities net assets, June 30, 2002	<u>\$ 5,710,188</u>

Fiduciary Activities - The beginning fund equity of the private-purpose trust fund is prepared under the accrual basis of accounting, therefore, no transition is required to restate the beginning fund equity to net assets. Agency funds do not report fund balances.

B. Deficit Fund Balances

Fund balances at June 30, 2003 included the following individual fund deficits:

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	Deficit
Nonmajor Funds	
Food Service	\$ 2,542
Teacher Development	759
Drug-Free Schools	45
Summer Intervention	2,682
EESA/NDEA	724
Title VI-B	4,465
Title I	21,093
EHA Preschool	65
Classroom Reduction	14,728
Permanent Improvement	130,594

All of the above funds except the Food Service Fund also did not comply with Ohio state law, which does not permit a cash basis deficit at year-end. The general fund is liable for any deficits in these funds and provides transfers when cash is required, see Note 5 for these transfers. The Food Service Fund deficit resulted from adjustments for accrued liabilities.

4. EQUITY IN POOLED CASH AND CASH EQUIVALENTS

The District maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Equity in Pooled Cash and Cash Equivalents". Statutes require the classification of monies held by the District into three categories.

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

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

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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 accounts, including passbook accounts.

Protection of the District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the finance 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.

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

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FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

7. Certain bankers' acceptances and commercial paper notes for a period not to exceed 180 days in an amount not to exceed 25 percent of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt instrument rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

The following information classifies deposits and investments by categories of custodial credit risk as defined in GASB Statement No. 3, *Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements*.

Deposits: At fiscal year-end, the carrying amount of the District's deposits was \$1,930,136 and the bank balance was \$2,005,657. These balances included \$1,708,689 in nonnegotiable certificates of deposit. Of the bank balance:

1. \$200,000 was covered by federal depository; and
2. \$1,805,657 was covered by uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the District's name. Although all state statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the District to a successful claim by the FDIC.

Collateral is required for demand deposits and certificates of deposit in excess of all deposits not covered by federal depository insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies, obligations of the State of Ohio and its municipalities, and obligations of the other states. Obligations pledged to secure deposits must be delivered to a bank other than the institution in which the deposit is made. Written custodial agreements are required.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

Investments: The District's investments are categorized below to give an indication of the level of custodial credit risk assumed by the entity at fiscal year-end. Category 1 includes investments that are insured or registered or securities held by the District. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department, but not in the District's name. Investments in STAR Ohio are not categorized as they are not evidenced by securities that exist in physical or book entry form.

	Category 3	Reported Amount	Fair Value
Federal agency securities	\$ 1,395,570	\$ 1,395,570	\$ 1,395,570
Investment in STAR Ohio		2,294,033	2,294,033
Total investments		\$ 3,689,603	\$ 3,689,603

The federal agency securities have maturity dates ranging from August 2003 to February 2005.

The classification of cash and cash equivalents and investments on the basic financial statements is based on criteria set forth in GASB Statement No. 9. A reconciliation between the classifications of cash and investments on the basic financial statements and the classification per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/ Deposits	Investments
GASB Statement No. 9	\$ 5,619,739	\$ -
Investments of the cash management pool:		
Investment in STAR Ohio	(2,294,033)	2,294,033
Federal agency securities	(1,395,570)	1,395,570
GASB Statement No. 3	\$ 1,930,136	\$ 3,689,603

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

5. INTERFUND TRANSACTIONS

- A.** Interfund balances at June 30, 2003 as reported on the fund statements, consist of the following amounts due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor governmental funds	<u>\$ 202,281</u>

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

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2003 are reported on the statement of net assets.

- B.** Interfund transfers for the year ended June 30, 2003, consisted of the following, as reported on the fund financial statements:

Transfers to Nonmajor Governmental funds from:

General Fund	<u>\$ 256,707</u>
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Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, and (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

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

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.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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(Continued)

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2003 represents collections of calendar year 2002 taxes. Real property taxes received in calendar year 2003 were levied after April 1, 2002, on the assessed value listed as of January 1, 2002, the lien date. Assessed values for real property taxes are established by state law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, state statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2003 represents collections of calendar year 2002 taxes. Public utility real and tangible personal property taxes received in calendar year 2003 became a lien December 31, 2002, were levied after April 1, 2003 and are collected in 2004 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2003 (other than public utility property) represents the collection of 2003 taxes. Tangible personal property taxes received in calendar year 2003 were levied after April 1, 2002, on the value as of December 31, 2001. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

The District receives property taxes from Erie and Sandusky County Auditors. The County Auditors periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2003, are available to finance fiscal year 2003 operations.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2003 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

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FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2003 was \$504,793 in the general fund, and \$17,231 in the Permanent Improvement capital projects fund. These amounts are recorded as revenue. The amount available as an advance at June 30, 2002, was \$326,653 in the general fund, and \$11,910 in the Permanent Improvement capital projects fund.

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

The assessed values upon which the fiscal year 2003 taxes were collected are:

	2002 Second Half Collections		2003 First Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/residential and other real estate	\$ 124,731,500	73.86%	\$ 127,009,610	75.53%
Public utility personal	9,990,700	5.92%	10,518,850	6.24%
Tangible personal property	34,161,775	20.23%	31,080,555	18.43%
Total	\$ 168,883,975	100.01%	\$ 168,609,015	100.20%
 Tax rate per \$1,000 of assessed valuation	 \$ 56.80		 \$ 56.80	

7. RECEIVABLES

Receivables at June 30, 2003 consisted of taxes, accounts (billings for user charged services and student fees), accrued interest, and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the statement of net assets follows:

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(Continued)

Governmental Activities

Property taxes	\$ 5,575,651
Accounts	300
Intergovernmental	166,182
Accrued interest	3,735
<i>Total</i>	\$ 5,745,868

Receivables have been disaggregated on the face of the basic finance statements. All receivables are expected to be collected within subsequent years.

8. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2003, was as follows:

	Balance 06/30/02	Additions	Deductions	Balance 06/30/03
Capital assets, not being depreciated:				
Land	\$ 211,027	\$ -	\$ -	\$ 211,027
Capital assets, being depreciated:				
Land improvements	324,329	-	-	324,329
Building and improvements	3,974,831	468,672	-	4,443,503
Furniture and equipment	1,198,895	35,568	(18,083)	1,216,380
Vehicles	1,242,298	126,345	(83,680)	1,284,963
<i>Total capital assets, being depreciated</i>	6,740,353	630,585	(101,763)	7,269,175
Less: accumulated depreciation:				
Land improvements	(220,482)	(15,663)	-	(236,145)
Building and improvements	(3,061,597)	(58,496)	-	(3,120,093)
Furniture and equipment	(804,331)	(106,907)	3,411	(907,827)
Vehicles	(652,895)	(104,177)	75,312	(681,760)
<i>Total accumulated depreciation</i>	(4,739,305)	(285,243)	78,723	(4,945,825)
<i>Governmental activities capital assets, net</i>	\$ 2,212,075	\$ 345,342	\$ (23,040)	\$ 2,534,377

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

Depreciation expense was charged to governmental functions as follows:

Instruction:			
Regular	\$	95,336	
Vocational		5,441	
Support Services:			
Administration		12,105	
Operations and Maintenance		1,719	
Pupil Transportation		106,900	
Extracurricular Activities		55,229	
Food Service Operation		8,513	
		8,513	
<i>Total depreciation expense</i>	\$	285,243	

9. LONG-TERM OBLIGATIONS

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

	Balance Outstanding 06/30/02	Additions	Reductions	Balance Outstanding 06/30/03	Amounts Due in One Year
Compensated absences	\$ 795,803	\$ 179,161	\$ (202,766)	\$ 772,198	\$ 86,984

Compensated Absences: Compensated absences will be paid from the fund from which the employee's salaries are paid.

B. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9 percent of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1 percent of the property valuation of the District.

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(Continued)**

The effects of these debt limitations at June 30, 2003 are a voted debt margin of \$15,174,811 and an unvoted debt margin of \$168,609.

10. OTHER EMPLOYEE BENEFITS

A. Compensated Absences

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

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

B. Insurance Benefits

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

11. 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 2003, the District has contracted with Nationwide Insurance to provide insurance coverage in the following amounts:

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ERIE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

Limits of Coverage	Carrier	Coverage	Deductible
General liability:			
Each occurrence	Harcum-Hyre	\$ 1,000,000	\$ -
Aggregate		3,000,000	-
Fleet:			
Comprehensive	Dawson Companies	300,000	250
Collision			500
Umbrella liability	Harcum-Hyre	2,000,000	-
Building and contents	Harcum-Hyre	25,020,523	10,000

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, dental, and life insurance benefits for its employees and their covered dependents. The Association is a shared risk pool comprised of 14 school districts that provide public education within Erie and Huron Counties. The Districts pay monthly contributions that are placed in a common fund from which eligible claims and expenses are paid for employees of participating school districts and their covered dependents. Claims are paid for all participants regardless of claims flow.

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

Post employment health care is provided to plan participants or their beneficiaries through the respective retirement systems discussed in Note 13. As such, no funding provisions are required by the District.

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

C. OSBA Group Workers' Compensation Rating Program

For fiscal year 2003, the District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 2.A.). The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the state based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP.

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 GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control, and actuarial services to the GRP.

12. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State Statute Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476, or by calling (614) 222-5853.

Plan members are required to contribute 9 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2003, 8.17 percent of annual covered salary was

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

the portion used to fund pension obligations. For fiscal year 2002, 5.46 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The District's required contributions to SERS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$145,143, \$91,399, and \$65,321, respectively; 47 percent has been contributed for fiscal year 2003 and 100 percent for the fiscal years 2002 and 2001. \$79,834 represents the unpaid contribution for fiscal year 2003.

B. State Teachers Retirement System

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771, or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

Plan members are required to contribute 9.3 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2003, 13 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2002, 9.5 percent of annual covered salary was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The District's required contributions to STRS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$682,646, \$463,949, and \$431,088, respectively; 84 percent has been contributed for fiscal year 2003 and 100 percent for the fiscal years 2002 and 2001. \$109,223 represents the unpaid contribution for fiscal year 2003.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS or the STRS have an option to choose Social Security or the SERS/STRS. As of June 30, 2003, certain members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid.

13. POSTEMPLOYMENT BENEFITS

The District provides comprehensive health care benefits to retired teachers and their dependents through STRS, and to retired non-certified employees and their dependents through SERS. Benefits include hospitalization, physicians' fees, prescription drugs, and

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

partial reimbursement of monthly Medicare Part B premiums. Benefit provisions and the obligations to contribute are established by STRS and SERS based on authority granted by state statute. Both STRS and SERS are funded on a pay-as-you-go-basis.

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For this fiscal year, the State Teachers Retirement Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve fund. For the District, this amount equaled \$52,511 during fiscal 2003.

STRS pays health care benefits from the Health Care Reserve fund. The balance in the Health Care Reserve fund was \$2.8 billion at June 30, 2003. For the fiscal year ended June 30, 2003, net health care costs paid by STRS were \$352.301 million and STRS had 108,294 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than 25 years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

For this fiscal year, employer contributions to fund health care benefits were 5.83 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2003, the minimum pay has been established at \$14,500. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2003 were \$204.931 million and the target level was \$307.4 million. At June 30, 2003, SERS had net assets available for payment of health care benefits of \$303.6 million and SERS had approximately 50,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$117,995 during the 2003 fiscal year.

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

14. 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 are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures 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 a reservation of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP 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:

Net Change in Fund Balance	General Fund
Budget basis	\$ (8,523)
Net adjustment for revenue accruals	260,765
Net adjustment for expenditure accrals	4,445
Net adjustment for other sources/uses	(141)
Adjustment for encumbrances	312,122
GAAP basis	\$ 568,668

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

15. 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 party to a legal proceeding seeking damages or injunctive relief generally incidental to its operations and spending projects. The District management is of the opinion that disposition of the claim and legal proceedings will not have a material effect, if any, on the financial condition of the District.

C. State School Funding Decision

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the state's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school funding plan is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school funding scheme that is thorough and efficient...." The District is currently unable to determine what effect, if any, this decision will have on its future state funding and its financial operations.

16. STATUTORY RESERVES

The District is required by state law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2003, the reserve activity was as follows:

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

	Textbooks/ Instructional Materials	Capital Acquisition	Budget Stabilization
Set-aside balance as of June 30, 2002	\$ (799,410)	\$ -	\$ 51,434
Current year set-aside requirement	212,658	212,658	-
Current year offsets		(284,162)	
Qualifying disbursements	(466,480)	(362,995)	-
Elimination of Budget Stabilization	-	-	(51,434)
Total	<u>\$ (1,053,232)</u>	<u>\$ (434,499)</u>	<u>\$ -</u>
Balance carried forward to FY 2004	<u>\$ (1,053,232)</u>	<u>\$ -</u>	<u>\$ -</u>

During the fiscal year, the District eliminated the set-aside for budget stabilization by transferring the funds to the capital projects fund for a locker room project.

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

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

17. CONTRACTUAL COMMITMENT

During fiscal year 2003, the District entered into a contract with Miller & Sons to build a storage facility. Construction began in the subsequent fiscal year. The following outlines the activity as of June 30, 2003:

<u>Vendor</u>	<u>Contract Amount</u>	<u>Amount Paid</u>	<u>Balance Outstanding</u>
Miller & Sons	<u>\$ 122,364</u>	<u>\$ 19,200</u>	<u>\$ 103,164</u>

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**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2003**

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Federal CFDA Number	Grant Number
U.S. DEPARTMENT OF AGRICULTURE <i>Passed Through Ohio Department of Education</i>		
<u>Nutrition Cluster:</u>		
National School Lunch Program	10.555	046805-LLP4-2002 046805-LLP4-2003 046805-VGS1-2003
Food Distribution Program	10.550	-
Total U.S. Department of Agriculture - Nutrition Cluster		
U.S. 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	046805-6B-SF-2002P 046805-6B-SF-2003P
Special Education - Preschool Grant	84.173	046805-PG-S1-2002P 046805-PG-S1-2003P
Total Special Education Cluster		
Grants to Local Educational Agencies (ESEA Title I)	84.010	046805-C1-S1-2002 046805-C1-S1-2003
Total Grants to Local Educational Agencies		
Title V, Innovative Programs	84.298	046805-C2-S1-2001 046805-C2-S1-2002 046805-C2-S1-2003
Total Title V, Innovative Programs		

<u>Receipts</u>	<u>Non-Cash Receipts</u>	<u>Disbursements</u>	<u>Non-Cash Disbursements</u>
\$ 25,898		\$ 25,898	
59,760		59,760	
31,638		31,638	
	\$ 35,778		\$ 35,778
117,296	35,778	117,296	35,778
1,440		7,327	
117,023		136,193	
		8,207	
1,478		8,213	
<u>119,941</u>		<u>159,940</u>	
17,354		20,761	
68,262		106,249	
<u>85,616</u>		<u>127,010</u>	
		710	
5,588		7,266	
1,559		6,290	
<u>7,147</u>		<u>14,266</u>	

(Continued)

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Federal CFDA Number	Grant Number
Safe and Drug-Free Schools and Communities State Grant	84.186	046805-DR-S1-2002 046805-DR-S1-2003
Total Safe and Drug-Free Schools and Communities State Grant		
Technology Literacy Challenge Fund	84.318	046805-TJ-S1-2003
Class Size Reduction	84.340	046805-CR-S1-2001 046805-CR-S1-2002 046805-TR-S1-2003
Total Class Size Reduction		
Total U.S. Department of Education		
Total Federal Financial Assistance		

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THIS SCHEDULE

<u>Receipts</u>	<u>Non-Cash Receipts</u>	<u>Disbursements</u>	<u>Non-Cash Disbursements</u>
4,659			
1,188		6,601	
<u>5,847</u>		<u>6,601</u>	
624		1,851	
(7,838)		35,924	
<u>23,173</u>		<u>35,924</u>	
<u>15,335</u>		<u>35,924</u>	
<u>234,510</u>		<u>345,592</u>	
<u>\$ 351,806</u>	<u>\$ 35,778</u>	<u>\$ 462,888</u>	<u>\$ 35,778</u>

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FISCAL YEAR ENDED JUNE 30, 2003**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - CHILD NUTRITION CLUSTER

Program regulations do not require the District to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. This nonmonetary assistance (expenditures) is reported in the Schedule at the fair market value of the commodities received.

Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed Federal monies are expended first.

NOTE C - MATCHING REQUIREMENTS

Certain Federal programs require that the District contribute non-Federal funds (matching funds) to support the Federally-funded programs. The District has complied with the matching requirements. The expenditure of non-Federal matching funds is not included on the Schedule.

NOTE D - REFUNDED RECEIPTS

The District returned \$7,838 in unexpended grant funds to the Ohio Department of Education during fiscal year 2003 for the Class Size Reduction grant. This amount is reported as a negative receipt on the Schedule.



**Auditor of State
Betty Montgomery**

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

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

To the Board of Education:

We have audited the financial statements of the Margaretta Local School District as of and for the year ended June 30, 2003, and have issued our report thereon dated May 18, 2004 in which we noted the District implemented Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2003-001, 2003-002, 2003-003, and 2003-004. We also noted certain immaterial instances of noncompliance that we have reported to management of the District in a separate letter dated May 18, 2004.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion

on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated May 18, 2004.

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



Betty Montgomery
Auditor of State

May 18, 2004



**Auditor of State
Betty Montgomery**

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

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

To the Board of Education:

Compliance

We have audited the compliance of Margaretta Local School District, Erie County, (the District), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2003. The District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

One Government Center / Room 1420 / Toledo, OH 43604-2246
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www.auditor.state.oh.us

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2003.

Internal Control over Compliance

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

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

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



Betty Montgomery
Auditor of State

May 18, 2004

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 §.505
JUNE 30, 2003

1. SUMMARY OF AUDITOR'S RESULTS
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<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified.
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions 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?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Special Education Cluster (CFDA #84.027 & 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**

FINDING NUMBER 2003-001

Noncompliance Citation

Ohio Revised Code § 5705.41(D)(1) prohibits a subdivision or taxing entity from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance.

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in §§ 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

1. **"Then and Now" certificate** – If the fiscal officer can certify that both at the time that the contract or order was made ("then"), and at the time that the fiscal officer is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the District can authorize the drawing of a warrant for the payment of the amount due. The District has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution. Amounts of less than \$1,000 (\$3,000 after April 7, 2003) may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. The does not eliminate any otherwise applicable requirement for approval of expenditures by the District.
2. **Blanket Certificate** – Fiscal officers may prepare "blanket" certificates not exceeding \$5,000 against any specific line item account over a period not exceeding three months or running beyond the current year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation. The three month limitation for blanket certificates was eliminated and the threshold was changed to "an amount established by resolution or ordinance adopted by the legislative authority," effective September 26, 2003.

**FINDING NUMBER 2003-001
(Continued)**

3. **Super Blanket Certificate** – The District may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year (or quarterly spending plan for counties). More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

The District did not properly certify the availability of funds prior to purchase commitment for 61 percent of expenditures tested and there was no evidence that the District followed the aforementioned exceptions. The failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the District's funds exceeding budgetary spending limitations, we recommend that the Treasurer certify that the funds are or will be available prior to obligation by the District. When prior certification is not possible, "then and now" certification should be used.

We recommend the District certify purchases to which § 5705.41(D) applies. The most convenient certification method is to use purchase orders that include certification language § 5705.41(D) requires to authorize disbursements. The Treasurer should sign the certification at the time the District incurs a commitment, and only when the requirements of § 5705.41 (D) are satisfied. The Treasurer should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

FINDING NUMBER 2003-002

Noncompliance Citation

Ohio Revised Code § 5705.10 requires money paid into any fund shall be used only for the purpose for which such fund is established. Deficit fund balances indicate that monies from one fund are used to pay obligations of another fund. As of June 30, 2003, the following funds had deficit balances as shown:

**FINDING NUMBER 2003-002
 (Continued)**

<u>Fund</u>	<u>Deficit Balance</u>
Special Revenue Funds:	
Title I Fund 572	\$ (38,149)
Title VI-B Fund 516	(25,604)
Pre-School Fund 587	(6,735)
Safe and Drug Free School Fund 584	(5,413)
Chapter 2 Fund 573	(5,047)
Classroom Reduction Fund 590	(2,887)
Summer School Intervention Fund 460	(2,520)
Professional Development Fund 416	(755)
Eisenhower Professional Development Fund 514	(724)
High School Sunshine Fund 022	(50)
Ohio Reads Fund 459	(29)
Capital Project Permanent Improvement Fund 003	(114,418)

The deficit balances in the Special Revenue Funds were associated with expenditures that were paid from these funds that will be reimbursed through grant monies. The District should advance funds in accordance with the provisions of the Ohio Revised Code to cover these deficits pending receipt of the grant funds.

FINDING NUMBER 2003-003

Noncompliance Citation

Ohio Revised Code § 5705.39 states that the total appropriation from each fund should not exceed the total estimated revenue. Our test of budgetary compliance at June 30, 2003, indicated the following fund had appropriations in excess of estimated resources:

<u>Fund</u>	<u>Estimated Resources</u>	<u>Appropriations</u>	<u>Excess</u>
Capital Project Permanent Improvement Fund 003	<u>\$ 227,277</u>	<u>\$ 464,000</u>	<u>\$ (236,723)</u>

**FINDING NUMBER 2003-003
 (Continued)**

Sufficient revenues were available in the Permanent Improvement Fund to permit the District to have obtained an amended certificate. The failure to limit appropriations to amounts certified could allow expenditures to exceed available resources.

FINDING NUMBER 2003-004

Noncompliance Citation

Ohio Revised Code § 5705.41(B) prohibits a subdivision from making an expenditure unless it has been lawfully appropriated. The following funds had expenditures in excess of appropriations for the fiscal year ended June 30, 2003:

<u>Fund</u>	<u>Appropriations</u>	<u>Expenditures</u>	<u>Excess</u>
General Fund	\$ 11,269,226	\$ 11,259,750	\$ (9,476)
Special Revenue Funds			
Public School Support Fund 018	895	164,928	(164,033)
Athletic Fund 300	3,973	182,048	(178,075)
Professional Development Grant Fund 416		12,951	(12,951)
EMIS Fund 432		8,854	(8,854)
One Net/Network Connectivity Fund 451		15,028	(15,028)
SchoolNet Professional Development Fund 452		8,640	(8,640)
Ohio Reads Grant Fund 459		2,029	(2,029)
Summer School Intervention Fund 460		4,171	(4,171)
Miscellaneous State Grants Fund 499		18,533	(18,533)
Title VI-B Fund 516		143,520	(143,520)
Title I Fund 572		127,011	(127,011)
Chapter 2 Fund 573	1,710	14,562	(12,852)
Safe & Drug Free School Fund 584		6,601	(6,601)
Pre-School Fund 587		16,420	(16,420)
Classroom Reduction Fund 590		44,615	(44,615)
Miscellaneous Federal Grants Fund 599		1,851	(1,851)

**FINDING NUMBER 2003-004
 (Continued)**

Fund	Appropriations	Expenditures	Excess
Capital Projects Funds:			
Permanent Improvement Fund 003	473,761	632,663	(158,902)
School Net Fund 450		23,330	(23,330)
Food Service Fund 006	516,500	527,267	(10,767)
Expendable Trust Scholarship Fund 007		15,239	(15,239)
Nonexpendable Trust Scholarship Fund 008		14,635	(14,635)

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

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

SCHEDULE OF PRIOR AUDIT FINDINGS

OMB CIRCULAR A -133 §.315 (b)

JUNE 30, 2003

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2002-10522-001	OAC § 117-2-03(B) Failure to file GAAP report.	Yes	
2002-10522-002	ORC § 5705.41(B) Expenditures exceeding appropriations.	No	Not corrected. Reissued as finding 2003-004.
2002-10522-003	ORC § 5705.41(D) Failure of fiscal officer to certify expenditures.	No	Not corrected. Reissued as finding 2003-001.

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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
JUNE 10, 2004**