

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2006



Mary Taylor, CPA
Auditor of State

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Margaretta Local School District, Erie County, Ohio (the District), as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the Margaretta Local School District, Erie County, Ohio, as of June 30, 2006, and the respective changes in financial position thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 16, 2007, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

One Government Center / Room 1420 / Toledo, OH 43604-2246
Telephone: (419) 245-2811 (800) 443-9276 Fax: (419) 245-2484
www.auditor.state.oh.us

The Management Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to opine 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.

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

April 16, 2007

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

The management's discussion and analysis of the Margarett Local School District's ("the District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2006. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2006 are as follows:

- In total, net assets of governmental activities decreased \$1,123,374 which represents a 19.84% decrease from 2005.
- General revenues accounted for \$11,653,026 in revenue or 88.64% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$1,493,016 or 11.36% of total revenues of \$13,146,042.
- The District had \$14,269,416 in expenses related to governmental activities; only \$1,493,016 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 \$11,653,026 were not adequate to provide for these programs.
- The District's only major governmental fund is the general fund. The general fund had \$11,377,242 in revenues and \$12,537,146 in expenditures and other financing uses. During fiscal 2006, the general fund's fund balance decreased \$1,159,904 from \$3,439,589 to \$2,279,685.

Using the Basic Financial Statements (BFS)

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

The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds with all other nonmajor funds presented in total in one column. In the case of the District, the general fund is by far the most significant fund, and the only governmental fund reported as 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 2006?" The *Statement of Net Assets* and the *Statement of Activities* answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

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

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

Reporting the District's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

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

Reporting the District's Fiduciary Responsibilities

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

Notes to the Basic Financial Statements

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

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

The District as a Whole

The Statement of Net Assets provides the perspective of the District as a whole. The table below provides a summary of the District's net assets for 2006 and 2005.

	Net Assets	
	Governmental Activities 2006	Governmental Activities 2005
<u>Assets</u>		
Current and other assets	\$ 9,712,055	\$ 11,080,593
Capital assets, net	<u>2,583,899</u>	<u>2,683,919</u>
Total assets	<u>12,295,954</u>	<u>13,764,512</u>
<u>Liabilities</u>		
Current liabilities	6,777,976	7,339,652
Long-term liabilities	<u>978,307</u>	<u>761,815</u>
Total liabilities	<u>7,756,283</u>	<u>8,101,467</u>
<u>Net Assets</u>		
Invested in capital assets	2,583,899	2,683,919
Restricted	155,531	122,063
Unrestricted	<u>1,800,241</u>	<u>2,857,063</u>
Total net assets	<u>\$ 4,539,671</u>	<u>\$ 5,663,045</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2006, the District's assets exceeded liabilities by \$4,539,671.

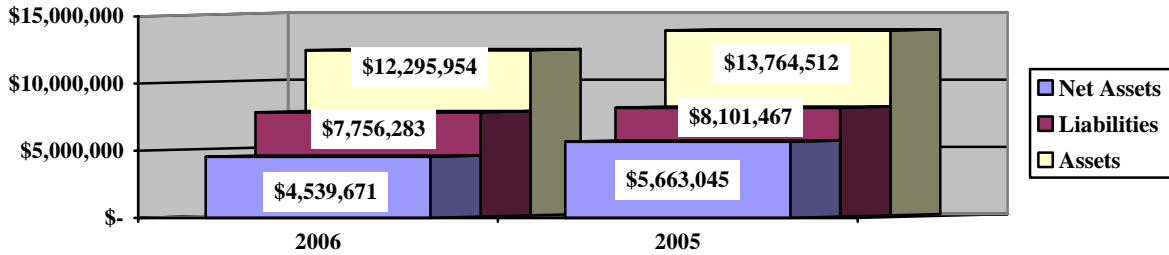
At fiscal year-end, capital assets represented 21.01% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of depreciation at June 30, 2006, were \$2,583,899. These capital assets are used to provide services to the students and are not available for future spending.

A portion of the District's net assets, \$155,531, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$1,800,241 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, 2006
(Continued)**

Governmental Activities



The table below shows the change in net assets for fiscal years 2006 and 2005.

Change in Net Assets

	Governmental Activities 2006	Governmental Activities 2005
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 897,781	\$ 999,936
Operating grants and contributions	595,235	672,342
General revenues:		
Property taxes	6,160,658	6,151,893
Grants and entitlements	5,161,653	5,210,923
Investment earnings	192,801	108,165
Other	137,914	102,607
Total revenues	<u>\$ 13,146,042</u>	<u>\$ 13,245,866</u>

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

	Change in Net Assets	
	Governmental Activities 2006	Governmental Activities 2005
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 5,696,531	\$ 5,417,337
Special	1,444,676	1,315,336
Vocational	381,012	384,969
Other	9,579	7,880
Support services:		
Pupil	576,450	613,031
Instructional staff	720,241	714,617
Board of education	341,726	153,606
Administration	1,007,503	947,001
Fiscal	479,881	380,078
Operations and maintenance	1,353,404	1,515,112
Pupil transportation	942,774	834,605
Central	14,746	
Operations of non-instructional services:		
Non-instructional services	217,432	213,734
Food service operations	581,596	603,615
Extracurricular activities	<u>501,865</u>	<u>459,166</u>
Total expenses	<u>14,269,416</u>	<u>13,560,087</u>
Change in net assets	(1,123,374)	(314,221)
Net assets at beginning of year	<u>5,663,045</u>	<u>5,977,266</u>
Net assets at end of year	<u>\$ 4,539,671</u>	<u>\$ 5,663,045</u>

Governmental Activities

Net assets of the District's governmental activities decreased \$1,123,374. The decrease is due to expenses exceeding revenues. The most significant increases were for teacher salaries, benefits, diesel fuel, natural gas, a bus purchase, and legal fees. Total governmental expenses of \$14,269,416 were offset by program revenues of \$1,493,016 and general revenues of \$11,653,026. Program revenues supported 10.46% of the total governmental expenses.

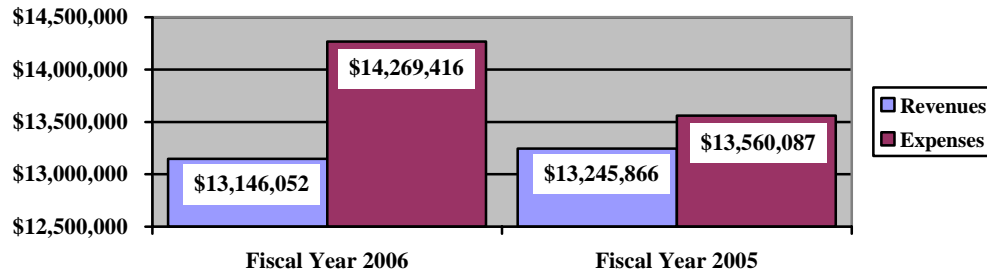
The primary sources of revenue for governmental activities are derived from property taxes and grants and entitlements. These two revenue sources represent 86.13% of total governmental revenue. Real estate property is reappraised every six years.

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

The graph below presents the District's governmental activities revenue and expenses for fiscal years 2006 and 2005.

Governmental Activities - Revenues and Expenses



The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements.

Governmental Activities

	Total Cost of Services <u>2006</u>	Net Cost of Services <u>2006</u>	Total Cost of Services <u>2005</u>	Net Cost of Services <u>2005</u>
Program expenses				
Instruction:				
Regular	\$ 5,696,531	\$ 5,527,339	\$ 5,417,337	\$ 5,175,590
Special	1,444,676	1,189,363	1,315,336	1,094,104
Vocational	381,012	376,152	384,969	384,969
Other	9,579	7,579	7,880	7,880
Support services:				
Pupil	576,450	523,329	613,031	426,271
Instructional staff	720,241	672,076	714,617	701,318
Board of education	341,726	341,726	153,606	153,606
Administration	1,007,503	1,007,503	947,001	947,001
Fiscal	479,881	479,881	380,078	380,078
Operations and maintenance	1,353,404	1,351,756	1,515,112	1,513,565
Pupil transportation	942,774	942,774	834,605	834,605
Central	14,746	14,746		
Operations of non-instructional services				
Non-instructional services	217,432	30,650	213,734	(201,563)
Food service operations	581,596	8,796	603,615	11,219
Extracurricular activities	501,865	302,730	459,166	459,166
Total expenses	<u>\$ 14,269,416</u>	<u>\$ 12,776,400</u>	<u>\$ 13,560,087</u>	<u>\$ 11,887,809</u>

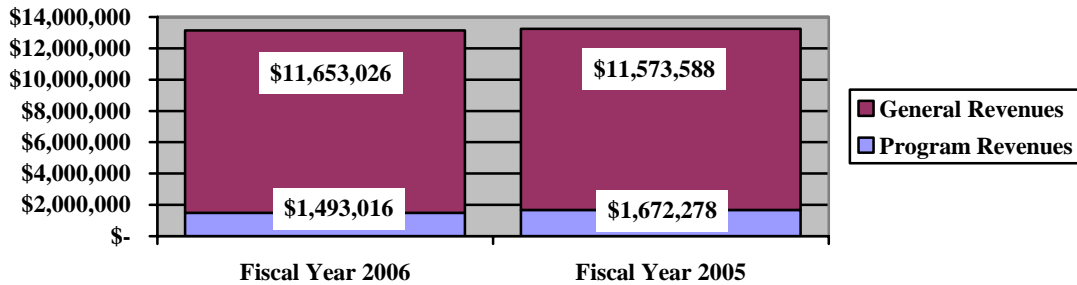
**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

The dependence upon tax and other general revenues for governmental activities is apparent, 94.27% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 89.54%. 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 years 2006 and 2005.

Governmental Activities - General and Program Revenues



The District's Funds

The District's governmental funds reported a combined fund balance of \$2,190,318, which is lower than last year's total of \$3,538,151. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2006 and 2005.

	Fund Balance (Deficit) June 30, 2006	Fund Balance June 30, 2005	(Decrease)
General	\$ 2,279,685	\$ 3,439,589	\$ (1,159,904)
Other Governmental	(89,367)	98,562	(187,929)
Total	\$ 2,190,318	\$ 3,538,151	\$ (1,347,833)

General Fund

The District's general fund balance decreased \$1,159,904. The decrease in fund balance can be attributed to expenditures exceeding revenues. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

	<u>2006</u> <u>Amount</u>	<u>2005</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>			
Taxes	\$ 5,811,474	\$ 6,183,921	(6.02) %
Tuition	38,158	91,182	(58.15) %
Earnings on investments	178,553	108,817	64.09 %
Classroom materials and fees	59,857	64,864	(7.72) %
Intergovernmental	5,141,749	5,179,032	(0.72) %
Other revenues	<u>147,461</u>	<u>119,018</u>	23.90 %
Total	<u>\$ 11,377,252</u>	<u>\$11,746,834</u>	(3.15) %
<u>Expenditures</u>			
Instruction	\$ 7,062,843	\$ 6,659,167	6.06 %
Support services	5,182,125	4,865,541	6.51 %
Operation of non-instructional services	21,124	16,467	28.28 %
Extracurricular activities	230,654	219,763	4.96 %
Facilities acquisition and construction	<u>-</u>	<u>3,000</u>	(100.00) %
Total	<u>\$ 12,496,746</u>	<u>\$11,763,938</u>	6.23 %

The decrease in tax revenue is due to a decrease in advances available by the counties that would be recorded as revenue as of June 30, 2006. The decrease in tuition revenue is due to a decrease in open enrollment students. The increase in earnings on investments can be attributed to an increase of interest rates by the Federal Reserve. The increases in instruction and support services are primarily due to pay increases as well as increases in costs of insurance benefits.

General Fund Budgeting Highlights

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

During the course of fiscal 2006, the District did not amend its general fund budgeted revenues. For the general fund, original and final budgeted revenues were \$12,082,818. Actual revenues and other financing sources for fiscal 2006 was \$11,511,341. This represents a \$571,477 decrease from original and final budgeted revenues. This is due to unforeseen decreases in tax revenue and intergovernmental revenue.

General fund original appropriations (appropriated expenditures plus other financing uses) of \$12,609,655 were increased to \$13,152,260 in the final budget. The actual budget basis expenditures and other financing uses for fiscal year 2006 totaled \$12,455,957, which was \$696,303 less than the final budget appropriations.

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

Capital Assets

At the end of fiscal 2006, the District had \$2,583,899 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 2006 balances compared to the amount of capital assets in 2005:

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

	Governmental Activities	
	2006	2005
Land	\$ 103,182	\$ 103,182
Land improvements	283,505	303,963
Building and improvements	1,589,892	1,553,058
Furniture and equipment	153,138	172,802
Vehicles	454,182	550,914
Total	\$ 2,583,899	\$ 2,683,919

The overall decrease in capital assets of \$100,020 is primarily due to total disposals of \$13,610 (net of accumulated depreciation) and total depreciation expense of \$219,422 exceeding capital outlays of \$133,012 for fiscal 2006.

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

Debt Administration

At June 30, 2006, the District had no outstanding debt obligations.

Current Financial Related Activities

State funding is projected to increase slightly as per pupil funding increases are offset by enrollment decline and valuation increases. Calendar year 2003 tri-annual update resulted in increased real estate valuations, which generate some additional local revenue. This increase is offset by the state funding formula that assumes the District is receiving more local revenue even though the local increase is limited by house bill 920.

The state legislature continues to impact our business tax base. Phasing out the inventory portion of personal property tax will reduce tax revenue over the next 4 years. The State of Ohio is attempting to hold schools harmless by way of reimbursement up to the tax year 2004 level of local funding from the Tangible Personal Property Tax. 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.

The District conducted a community survey to determine the interest in replacing/renovating school facilities. The response was strong "not at this time". A community engagement process has been started to increase community awareness to the needs of the District.

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

Open enrollment began during school year 2004-2005. This increased state funding with no increase in operational expenses.

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. Jude Hammond, Treasurer, Margarett Local School District, 305 S. Washington Street, Castalia, Ohio 44824-9263.

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

STATEMENT OF NET ASSETS
JUNE 30, 2006

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents.	\$ 3,773,002
Receivables:	
Taxes	5,714,669
Intergovernmental	176,591
Accrued interest	33,394
Materials and supplies inventory	14,399
Capital assets:	
Land.	103,182
Depreciable capital assets, net.	2,480,717
Total capital assets, net	2,583,899
 Total assets.	 12,295,954
Liabilities:	
Accounts payable.	54,154
Accrued wages and benefits	1,311,649
Pension obligation payable.	323,570
Intergovernmental payable.	93,366
Deferred revenue	4,995,237
Long-term liabilities:	
Due within one year.	327,726
Due in more than one year	650,581
 Total liabilities	 7,756,283
Net Assets:	
Invested in capital assets	2,583,899
Restricted for:	
Capital projects	6,173
State funded programs.	7,905
Federally funded programs.	71,032
Student activities.	70,421
Unrestricted	1,800,241
 Total net assets	 \$ 4,539,671

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense)</u>
		<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	<u>Revenue and Changes in Net Assets</u>
				<u>Governmental Activities</u>
Governmental activities:				
Instruction:				
Regular	\$ 5,696,531	\$ 119,528	\$ 49,664	\$ (5,527,339)
Special	1,444,676		255,313	(1,189,363)
Vocational	381,012		4,860	(376,152)
Other	9,579		2,000	(7,579)
Support services:				
Pupil	576,450		53,121	(523,329)
Instructional staff	720,241		48,165	(672,076)
Board of education	341,726			(341,726)
Administration	1,007,503			(1,007,503)
Fiscal	479,881			(479,881)
Operations and maintenance	1,353,404	1,648		(1,351,756)
Pupil transportation	942,774			(942,774)
Central	14,746			(14,746)
Operation of non-instructional:				
Non-instructional services	217,432	186,782		(30,650)
Food service operations	581,596	390,688	182,112	(8,796)
Extracurricular activities	501,865	199,135		(302,730)
Totals	\$ 14,269,416	\$ 897,781	\$ 595,235	(12,776,400)

General Revenues:

Property taxes levied for:	
General purposes	5,966,739
Capital projects	193,919
Grants and entitlements not restricted to specific programs	5,161,653
Investment earnings	192,801
Miscellaneous	137,914
Total general revenues	11,653,026
Change in net assets	(1,123,374)
Net assets at beginning of year	5,663,045
Net assets at end of year	\$ 4,539,671

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006**

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:			
Equity in pooled cash and cash equivalents	\$ 3,636,531	\$ 136,471	\$ 3,773,002
Receivables:			
Taxes	5,528,607	186,062	5,714,669
Intergovernmental.		176,591	176,591
Accrued interest.	33,394		33,394
Due from other funds	151,757		151,757
Materials and supplies		14,399	14,399
Total assets	\$ 9,350,289	\$ 513,523	\$ 9,863,812
Liabilities:			
Accounts payable	\$ 41,420	\$ 12,734	\$ 54,154
Accrued wages and benefits	1,231,668	79,981	1,311,649
Compensated absences payable.	273,958	3,677	277,635
Pension obligation payable	292,948	30,622	323,570
Intergovernmental payable	88,314	5,052	93,366
Due to other funds		151,757	151,757
Deferred revenue	5,142,296	319,067	5,461,363
Total liabilities	7,070,604	602,890	7,673,494
Fund Balances:			
Reserved for encumbrances.	183,540	137,185	320,725
Reserved for materials and supplies inventory		14,399	14,399
Reserved for property tax unavailable for appropriation.	406,052	14,711	420,763
Unreserved, undesignated (deficit), reported in:			
General fund.	1,690,093		1,690,093
Special revenue funds		(170,152)	(170,152)
Capital projects funds		(85,510)	(85,510)
Total fund balance (deficit)	2,279,685	(89,367)	2,190,318
Total liabilities and fund balances	\$ 9,350,289	\$ 513,523	\$ 9,863,812

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, 2006

Total governmental fund balances	\$	2,190,318
<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.		2,583,899
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Taxes	\$	307,844
Interest revenue		19,741
Intergovernmental revenue		138,541
		<hr/>
Total		466,126
Long-term liabilities, including compensated absences are not due and payable in the current period and therefore are not reported in the funds.		<hr/>
		(700,672)
Net assets of governmental activities	\$	<u><u>4,539,671</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, 2006

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
From local sources:			
Taxes	\$ 5,811,474	\$ 188,184	\$ 5,999,658
Tuition	38,158		38,158
Charges for services		390,688	390,688
Earnings on investments	178,553	6,620	185,173
Extracurricular		385,917	385,917
Classroom materials and fees	59,847		59,847
Other local revenues	147,461	13,624	161,085
Intergovernmental - State	5,141,749	55,071	5,196,820
Intergovernmental - Federal		465,360	465,360
Total revenue	<u>11,377,242</u>	<u>1,505,464</u>	<u>12,882,706</u>
Expenditures:			
Current:			
Instruction:			
Regular	5,508,983	221,422	5,730,405
Special	1,151,114	269,656	1,420,770
Vocational	397,252	5,400	402,652
Other	5,494	4,085	9,579
Support Services:			
Pupil	506,614	65,751	572,365
Instructional staff	700,574	16,546	717,120
Board of education	341,024	702	341,726
Administration	1,007,320		1,007,320
Fiscal	473,685	2,816	476,501
Operations and maintenance	1,304,850		1,304,850
Pupil transportation	833,312		833,312
Central	14,746		14,746
Operation of non-instructional services:			
Non-instructional services	21,124	196,308	217,432
Food service operations		587,824	587,824
Extracurricular activities	230,654	222,431	453,085
Facilities acquisition and construction		140,117	140,117
Total expenditures	<u>12,496,746</u>	<u>1,733,058</u>	<u>14,229,804</u>
Deficiency of revenues under expenditures	<u>(1,119,504)</u>	<u>(227,594)</u>	<u>(1,347,098)</u>
Other financing sources (uses):			
Transfers in		40,400	40,400
Transfers (out)	(40,400)		(40,400)
Total other financing sources (uses)	<u>(40,400)</u>	<u>40,400</u>	
Net change in fund balances	(1,159,904)	(187,194)	(1,347,098)
Fund balances at beginning of year	3,439,589	98,562	3,538,151
Decrease in reserve for inventory		(735)	(735)
Fund balance (deficit) at end of year	<u>\$ 2,279,685</u>	<u>\$ (89,367)</u>	<u>\$ 2,190,318</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, 2006**

Net change in fund balances - total governmental funds \$ (1,347,098)

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

Government funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.

Capital asset additions	\$	133,012	
Current year depreciation		(219,422)	
Total			(86,410)

Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. (13,610)

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

Delinquent property taxes		161,000	
Intergovernmental		94,708	
Accrued interest		7,628	
Total			263,336

Governmental funds report expenditures for inventory when purchased. However, in the statement of activities they are reported as an expense when consumed. (735)

Some expenses reported in the statement of activities do not require the use of financial resources and therefore are not reported as expenditures in governmental funds. 61,143

Change in net assets of governmental activities **\$ (1,123,374)**

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 (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
From local sources:				
Taxes	\$ 6,247,180	\$ 6,247,180	\$ 5,954,143	\$ (293,037)
Tuition	40,036	40,036	38,158	(1,878)
Earnings on investments	181,533	181,533	168,293	(13,240)
Classroom materials and fees	62,792	62,792	59,847	(2,945)
Other local revenues	156,473	156,473	149,133	(7,340)
Intergovernmental - state	5,394,804	5,394,804	5,141,749	(253,055)
Total revenue	<u>12,082,818</u>	<u>12,082,818</u>	<u>11,511,323</u>	<u>(571,495)</u>
Expenditures:				
Current:				
Instruction:				
Regular	5,575,801	5,631,801	5,315,571	316,230
Special	1,129,458	1,156,458	1,147,254	9,204
Vocational	415,525	444,525	402,994	41,531
Other	10,000	10,000	5,494	
Support Services:				
Pupil	439,734	519,734	497,828	21,906
Instructional staff	665,177	695,822	695,295	527
Board of education	164,268	345,578	340,873	4,705
Administration	964,597	1,030,597	1,019,176	11,421
Fiscal	456,112	497,612	470,799	26,813
Operations and maintenance	1,564,470	1,569,520	1,366,746	202,774
Pupil transportation	901,013	919,013	888,510	30,503
Central			14,747	(14,747)
Operation of non-instructional services	18,200	18,800	20,307	(1,507)
Extracurricular activities	241,300	248,800	229,963	18,837
Total expenditures	<u>12,545,655</u>	<u>13,088,260</u>	<u>12,415,557</u>	<u>672,703</u>
Excess of expenditures over revenues	<u>(462,837)</u>	<u>(1,005,442)</u>	<u>(904,234)</u>	<u>101,208</u>
Other financing sources (uses):				
Refund of prior year expenditures			18	18
Transfers (out)	(64,000)	(64,000)	(40,400)	23,600
Total other financing sources (uses)	<u>(64,000)</u>	<u>(64,000)</u>	<u>(40,382)</u>	<u>23,618</u>
Net change in fund balance	(526,837)	(1,069,442)	(944,616)	124,826
Fund balance at beginning of year	4,343,790	4,343,790	4,343,790	
Prior year encumbrances appropriated	185,155	185,155	185,155	
Fund balance at end of year	<u>\$ 4,002,108</u>	<u>\$ 3,459,503</u>	<u>\$ 3,584,329</u>	<u>\$ 124,826</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2006

	Private-Purpose Trust		Agency
	Scholarship		Agency
Assets:			
Equity in pooled cash and cash equivalents	\$ 317,248	\$	31,435
Receivables:			
Accrued interest.	491		
	317,739		
Total assets	317,739	\$	31,435
Liabilities:			
Due to students		\$	31,435
			31,435
Total liabilities		\$	31,435
Net Assets:			
Held in trust for scholarships	317,739		
Total net assets	\$ 317,739		

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, 2006

	<u>Private-Purpose Trust</u>	
	<u>Scholarship</u>	
Additions:		
Interest	\$	10,104
Gifts and contributions.		48,865
		<hr/>
Total additions.		58,969
		<hr/>
Deductions:		
Scholarships awarded		29,510
		<hr/>
Change in net assets		29,459
		<hr/>
Net assets at beginning of year.		288,280
		<hr/>
Net assets at end of year	\$	317,739
		<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, 2006**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

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

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

The District is the 390th largest in the state of Ohio among 615 public school districts in terms of enrollment. It currently operates 2 elementary schools and 1 high school. The District employs 78 non-certificated employees and 101 certificated (including administrative) employees to provide services to approximately 1,418 students.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District also applies Financial Accounting Standards Board (FASB) 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" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units". The reporting entity is composed of the primary government, component units and other organizations 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, community services and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's 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:

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

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

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 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.

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

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

B. Fund Accounting

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

GOVERNMENTAL FUNDS

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

C. Measurement Focus

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

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

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

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

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

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

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

The private-purpose trust 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 also use the accrual basis of accounting.

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

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

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

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

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

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

Deferred 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, 2006, but which were levied to finance fiscal year 2007 operations, 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 District only budgets for the General Fund, Capital Project Fund, and the Food Service Fund. The legal level of budgetary control is at the function level for the General Fund and at the fund level for the Capital Project and Food Service Funds.

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

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

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

Tax Budget:

Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget

includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The 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 original and final amended Certificates 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.

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (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 the fund that covered the entire fiscal year, including amounts automatically carried over from prior year. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the year.

The District did not properly limit expenditures to amounts appropriated as required by the Ohio Revised Code.

Lapsing of Appropriations:

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

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

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

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 2006, 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 recorded at cost.

The District has invested funds in STAR Ohio during fiscal 2006. 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, 2006.

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

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

Under existing Ohio statutes all investment earning 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 2006 amounted to \$178,553, which includes \$770 assigned from other District funds.

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

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

G. Inventory

On government-wide and fund financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used. Inventories are accounted for using the consumption method which means that the costs of inventory items are recorded as an expenditure in the governmental funds when consumed.

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

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

H. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of 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.

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

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

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

Description	Governmental Activities Estimated Lives
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 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.

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

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

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

L. Fund Balance Reserves

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

M. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, consist of capital assets, net of accumulated depreciation. 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 first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

N. Estimates

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

O. Interfund Activity

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

P. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal 2006.

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change In Accounting Principles

For fiscal year 2006, the District has implemented GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries", GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation", and GASB Statement No. 47, "Accounting for Termination Benefits".

GASB Statement No. 42 amends GASB Statement No. 34 and establishes accounting and financial reporting standards for impairment of capital assets and accounting requirements for insurance recoveries.

GASB Statement No. 46 defines enabling legislation and specifies how net assets should be reported in the financial statements when there are changes in such legislation. The Statement also requires governments to disclose in the notes to the financial statements the amount of net assets restricted by enabling legislation.

GASB Statement No. 47 establishes accounting standards for termination benefits.

The implementation of GASB Statement No. 42, GASB Statement No. 46 and GASB Statement No. 47 did not have an effect on the fund balances/net assets of the District as previously reported at June 30, 2005.

B. Deficit Fund Balances

Fund balances at June 30, 2006, included the following individual fund deficits:

<u>Nonmajor Funds</u>	<u>Deficit</u>
Food Service	(\$38,597)
E. I. Grant Townsend	(34)
Professional Development	(5,475)
One Network/Network Connectivity	(903)
SchoolNet Professional Development	(897)
Ohio Reads	(56)
Summer Intervention	(3,328)
Entry Year Grant	(1,134)
IDEA B Grant	(41,630)
Title I	(115,588)
Drug Free School Grant	(164)
Preschool Grants	(188)
Class Size Reduction	(11,993)
Permanent Improvement	(5,199)

A portion of the deficit fund balances resulted from adjustments for accrued liabilities at year end. Also, these funds had cash basis deficits at year end, contrary to Ohio Revised Code Section 5705.10.

**MARGARETTA LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

Interim moneys are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

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

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

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

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS – (Continued)

6. The State Treasurer's investment pool (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time: and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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

A. Cash on Hand

At year-end, the District had \$2,000 in undeposited cash on hand which is included on the financial statements of the District as part of "Equity in Pooled Cash and Cash Equivalents."

B. Deposits with Financial Institutions

At June 30, 2006, the carrying amount of all District deposits was \$485,328. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2006, \$320,694 of the District's bank balance of \$520,694 was exposed to custodial risk as discussed below, while \$200,000 was covered by Federal Deposit Insurance Corporation.

Custodial credit risk is the risk that, in the event of bank failure, the District's deposits may not be returned. All District deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the District.

**MARGARETTA LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS – (Continued)

C. Investments

As of June 30, 2006, the District had the following investments and maturities:

<u>Investment type</u>	<u>Balance at Fair Value</u>	<u>Investment Maturities</u>	
		<u>6 months or less</u>	<u>7 to 12 months</u>
FNMA Discount Note	\$ 1,487,902	\$ 1,487,902	
FHLMC	496,115		\$ 496,115
FHLB	991,013	495,683	495,330
STAR Ohio	<u>659,327</u>	<u>659,327</u>	<u>-</u>
	<u>\$ 3,634,357</u>	<u>\$ 2,642,912</u>	<u>\$ 991,445</u>

The weighted average maturity of investments is .30 years.

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

Credit Risk: The District's investments, except STAR Ohio, were rated AAA and Aaa by Standard & Poor's and Moody's Investor Services, respectively. Standard & Poor's has assigned STAR Ohio and AAAM money market rating. Star Ohio must maintain the highest letter or numerical rating provided by at least in nationally recognized standard service.

Concentration of Credit Risk: The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2006:

<u>Investment type</u>	<u>Balance at Fair Value</u>	<u>% to Total</u>
FNMA Discount Note	\$ 1,487,902	40.94
FHLMC	496,115	13.65
FHLB	991,013	27.27
STAR Ohio	<u>659,327</u>	<u>18.14</u>
	<u>\$ 3,634,357</u>	<u>100.00</u>

**MARGARETTA LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS – (Continued)

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

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2006:

<u>Cash and investments per footnote</u>	
Carrying amount of deposits	\$ 485,328
Investments	3,634,357
Cash on hand	<u>2,000</u>
Total	<u>\$ 4,121,685</u>
 <u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 3,773,002
Private-purpose trust funds	317,248
Agency fund	<u>31,435</u>
Total	<u>\$ 4,121,685</u>

NOTE 5 - INTERFUND TRANSACTIONS

A. Interfund balances at June 30, 2006, 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	\$ 151,757

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, 2006 are reported on the statement of net assets.

B. Interfund transfers for the year ended June 30, 2006, consisted of the following, as reported on the fund financial statements:

Transfers to Nonmajor Governmental funds from:	
General Fund	\$40,400

**MARGARETTA LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 5 - INTERFUND TRANSACTIONS – (Continued)

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.

NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2006 represents collections of calendar year 2005 taxes. Real property taxes received in calendar year 2006 were levied after April 1, 2005, on the assessed value listed as of January 1, 2005, 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 2006 represents collections of calendar year 2005 taxes. Public utility real and tangible personal property taxes received in calendar year 2006 became a lien December 31, 2004, were levied after April 1, 2005, and are collected in 2006 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 2006 (other than public utility property) represents the collection of 2006 taxes. Tangible personal property taxes received in calendar year 2006 were levied after April 1, 2005, on the value as of December 31, 2005. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-three 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.

**MARGARETTA LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 6 - PROPERTY TAXES – (Continued)

House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phases out the tax on tangible personal property of general businesses, telephone and telecommunications companies, and railroads. The tax on general business and railroad property will be eliminated by calendar year 2009, and the tax on telephone and telecommunications property will be eliminated by calendar year 2011. The tax is phased out by reducing the assessment rate on the property each year. The bill replaces the revenue lost by the District due to the phasing out of the tax. In calendar years 2006-2010, the District will be fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements will be phased out.

The District receives property taxes from Erie and Sandusky County Auditors. The County Auditors periodically advance to the District its portion of the taxes collected. Second-half real property tax payments collected by the Counties by June 30, 2006, are available to finance fiscal year 2006 operations.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2006 and for which there is an enforceable legal claim.

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

The amount available as an advance at June 30, 2006 was \$406,052 in the general fund, and \$14,711 in the Permanent Improvement capital projects fund. These amounts are recorded as revenue. The amount available as an advance at June 30, 2005, was \$548,721 in the general fund, and \$17,847 in the Permanent Improvement capital projects fund. The amount available as advance can vary depending upon when tax bills are sent by the County Auditors.

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 2006 taxes were collected are:

	2005 Second Half Collections		2006 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 145,739,240	75.82	\$ 149,814,750	81.05
Public utility personal	9,587,340	4.99	8,772,990	4.75
Tangible personal property	<u>36,894,585</u>	<u>19.19</u>	<u>26,259,710</u>	<u>14.20</u>
Total	<u>\$ 192,221,165</u>	<u>100.00</u>	<u>\$ 184,847,450</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$ 56.80		\$ 56.80	

**MARGARETTA LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 7 - RECEIVABLES

Receivables at June 30, 2006, consisted of taxes, accrued interest, and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the statement of net assets follows:

Governmental Activities:	
Property taxes	\$ 5,714,669
Intergovernmental	176,591
Accrued interest	<u>33,394</u>
 Total	 <u><u>\$ 5,924,654</u></u>

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

NOTE 8 - CAPITAL ASSETS

A. Capital asset activity for the fiscal year ended June 30, 2006, was as follows:

	Balance 06/30/05	Additions	Deductions	Balance 06/30/06
<i>Capital assets, not being depreciated:</i>				
Land	\$ 103,182	\$ -	\$ -	\$ 103,182
<i>Capital assets, being depreciated:</i>				
Land improvements	1,188,084	10,318		1,198,402
Building and improvements	4,982,313	107,494		5,089,807
Furniture and equipment	545,315	15,200	(10,456)	550,059
Vehicles	<u>1,272,080</u>	<u>-</u>	<u>(48,089)</u>	<u>1,223,991</u>
Total capital assets, being depreciated	<u>7,987,792</u>	<u>133,012</u>	<u>(58,545)</u>	<u>8,062,259</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(884,121)	(30,776)		(914,897)
Building and improvements	(3,429,255)	(70,660)		(3,499,915)
Furniture and equipment	(372,513)	(26,063)	1,655	(396,921)
Vehicles	<u>(721,166)</u>	<u>(91,923)</u>	<u>43,280</u>	<u>(769,809)</u>
Total accumulated depreciation	<u>(5,407,055)</u>	<u>(219,422)</u>	<u>44,935</u>	<u>(5,581,542)</u>
Governmental activities capital assets, net	<u><u>\$ 2,683,919</u></u>	<u><u>\$ (86,410)</u></u>	<u><u>\$ (13,610)</u></u>	<u><u>\$ 2,583,899</u></u>

**MARGARETTA LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 8 - CAPITAL ASSETS – (Continued)

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>		
Regular	\$	38,710
Special		1,144
<u>Support Services:</u>		
Administration		7,003
Operations and Maintenance		18,645
Pupil Transportation		100,959
<u>Operation on Non-instructional Services:</u>		
Food Service Operation		4,181
Extracurricular Activities		<u>48,780</u>
Total depreciation expense	\$	<u>219,422</u>

NOTE 9 - LONG-TERM OBLIGATIONS

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

	Balance Outstanding <u>06/30/05</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>06/30/06</u>	Amounts Due in <u>One Year</u>
Compensated absences	\$761,815	\$ 286,395	\$(69,903)	\$ 978,307	\$327,726
Total governmental activities	<u>\$761,815</u>	<u>\$ 286,395</u>	<u>\$(69,903)</u>	<u>\$ 978,307</u>	<u>\$327,726</u>

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% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District.

The effects of these debt limitations at June 30, 2006, are a voted debt margin of \$13,998,496 and an unvoted debt margin of \$155,539.

**MARGARETTA LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 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.

NOTE 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 2006, the District has contracted with Nationwide Insurance to provide insurance coverage in the following amounts:

<u>Limits of Coverage</u>	<u>Carrier</u>	<u>Coverage</u>	<u>Deductible</u>
General liability:			
Each occurrence	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.

**MARGARETTA LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 11 - RISK MANAGEMENT – (Continued)

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.

C. OSBA Workers' Compensation Group Rating Plan

For fiscal year 2006, the District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (the "Plan"), an insurance purchasing pool (Note 2.A.). The intent of the Plan is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the Plan. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the Plan. Each participant pays its workers' compensation premium to the state based on the rate for the Plan rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the Plan.

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

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 12 - PENSION PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System (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 Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (800) 878-5853. It is also posted on SERS' website, www.ohsers.org, under Forms and Publications.

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 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 statutory maximum amounts, by the SERS' Retirement Board. The District's required contribution for pension obligations to SERS for fiscal years ended 2006, 2005, and 2004, were \$221,820, \$206,363, and \$171,033, respectively. 46.78 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004. \$118,055 represents the unpaid contribution for fiscal year 2006 and is recorded as a liability within the respective funds.

B. State Teachers Retirement System

The District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 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

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 12 - PENSION PLANS – (Continued)

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 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.

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon 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 employer contributions.

The District's required contributions for fund pension obligations to the DB Plan for the fiscal years ended June 30, 2006, 2005, and 2004 were \$747,394, \$722,132 and \$695,404, respectively. 83.60 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004. \$122,571 represents the unpaid contribution for fiscal year 2006 and is recorded as a liability within the respective funds. Contributions to the DC and Combined Plans for fiscal year 2006 were \$5,134 made by the District and \$15,721 made by the plan members.

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, 2006, certain members of the Board of Education have elected Social Security. The District's liability is 6.2% of wages paid.

NOTE 13 - POSTEMPLOYMENT BENEFITS

The District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 13 - POSTEMPLOYMENT BENEFITS – (Continued)

STRS retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$57,492 for fiscal year 2006.

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005 (the latest information available), the balance in the Health Care Stabilization Fund was \$3.3 billion. For the fiscal year ended June 30, 2005 (the latest information available), net health care costs paid by STRS were \$254.780 million and STRS had 115,395 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. Premiums may be reduced for retirees whose household income falls below the poverty level.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, a decrease of 0.01 percent from fiscal year 2005. 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 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2006 fiscal year, District paid \$111,644 to fund health care benefits, including the surcharge.

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 for the fiscal year ended June 30, 2005 (the latest information available) were \$178.221 million. At June 30, 2005 (the latest information available), SERS had net assets available for payment of health care benefits of \$267.5 million, which is about 168 percent of next years projected net health care costs of \$158.776 million. On the basis of actuarial projections, the allocated contributions will be insufficient in the long term, to provide for a health care reserve equal to at least 150 percent of estimated annual net claim costs. SERS has 58,123 participants currently receiving health care benefits.

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 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 and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to 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

	<u>General Fund</u>
Budget basis	\$ (944,616)
Net adjustment for revenue accruals	(134,081)
Net adjustment for expenditure accrals	(281,452)
Net adjustment for other sources/(uses)	(18)
Adjustment for encumbrances	<u>200,263</u>
 GAAP basis	 <u>\$ (1,159,904)</u>

NOTE 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.

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 15 – CONTINGENCIES – (Continued)

B. Litigation

A lawsuit has been filed by the Columbia Gas Transmission Corporation arguing that the Corporation's public utility property tax assessment rate should be 25% of true value rather than the 88% used by the Tax Commissioner. The Board of Tax Appeals has agreed with the Corporation and the case has been appealed by the Tax Commissioner to the Ohio Supreme Court. The School District receives a significant amount of property tax from the Corporation. Should the Corporation prevail in the Supreme Court, it may be entitled to a refund from the School District based on the lower assessment rate beginning from tax year 2001. The amount of the refund is estimated to be approximately \$1,913 per year. A portion of the refund may be recovered from additional State entitlement payments.

NOTE 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, 2006, the reserve activity was as follows:

	<u>Materials</u>	<u>Acquisition</u>
Set-aside cash balance as of June 30, 2005	\$ (1,586,028)	\$ -
Current year set-aside requirement	218,801	218,801
Current year offsets		(191,320)
Qualifying disbursements	<u>(249,441)</u>	<u>(119,064)</u>
Total	<u>\$ (1,616,668)</u>	<u>\$ (91,583)</u>
Balance carried forward to FY 2007	<u>\$ (1,616,668)</u>	<u>\$ -</u>

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.

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2006

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>		
National School Lunch Program	10.555	046805-LLP5-2006 046805-VGS1-2005
<i>Total National School Lunch Program</i>		
Food Distribution Program	10.550	
Total U.S. Department of Agriculture		
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-2005 046805-6B-SF-2006
<i>Total Special Education Grants to States</i>		
Special Education - Preschool Grant	84.173	046805-PG-S1-2005 046805-PG-S1-2006
<i>Total Special Education Preschool Grant</i>		
<i>Total Special Education Cluster</i>		
Grants to Local Educational Agencies (ESEA Title I)	84.010	046805-C1-S1-2005 046805-C1-S1-2006
<i>Total Grants to Local Educational Agencies</i>		
Safe and Drug-Free Schools and Communities State Grant	84.186	046805-DR-S1-2006
<i>Total Safe and Drug-Free Schools and Communities State Grant</i>		
Technology Literacy Challenge Fund	84.318	046805-TJ-S1-2005 046805-TJ-S1-2006
<i>Total Technology Literacy Challenge Fund</i>		
Improving Teacher Quality State Grant	84.367	046805-TR-S1-2005 046805-TR-S1-2006
<i>Total Improving Teacher Quality State Grant</i>		
Total U.S. Department of Education		
Total Federal Financial Assistance		

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THIS SCHEDULE.

Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
\$ 112,898		\$ 112,898	
12,468		12,468	
<u>125,366</u>		<u>125,366</u>	
	\$ 52,519		\$ 52,519
<u>125,366</u>	<u>52,519</u>	<u>125,366</u>	<u>52,519</u>
7,605		30,059	
134,312		162,046	
<u>141,917</u>		<u>192,105</u>	
1,207			
1,019			
<u>2,226</u>			
144,143		192,105	
21,513		28,545	
80,742		124,544	
<u>102,255</u>		<u>153,089</u>	
532		696	
<u>532</u>		<u>696</u>	
1,070		1,841	
1,682		1,904	
<u>2,752</u>		<u>3,745</u>	
5,819		10,166	
31,855		45,144	
<u>37,674</u>		<u>55,310</u>	
<u>287,356</u>		<u>404,945</u>	
<u>\$ 412,722</u>	<u>\$ 52,519</u>	<u>\$ 530,311</u>	<u>\$ 52,519</u>

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE FEDERAL AWARDS EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2006**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Expenditures Schedule (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

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

NOTE C – FOOD DONATION PROGRAM

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 non-monetary assistance (expenditures) is reported in the Schedule at the fair value of the commodities received.

NOTE D - 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.



Mary Taylor, CPA

Auditor of State

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Margaretta Local School District, Erie County (the District) as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements and have issued our report thereon dated April 16, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the District's management dated April 16, 2007, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

One Government Center / Room 1420 / Toledo, OH 43604-2246
Telephone: (419) 245-2811 (800) 443-9276 Fax: (419) 245-2484
www.auditor.state.oh.us

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2006-001, 2006-002, and 2006-003. In a separate letter to the District's management dated April 16, 2007, we reported other matters related to noncompliance we deemed immaterial.

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

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

April 16, 2007



Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON 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 the 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 apply to its major federal program for the year ended June 30, 2006. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal program. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the Margaretta Local School District, Erie County, complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended June 30, 2006.

Internal Control Over Compliance

The District's management 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 directly and materially affect a major federal program 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 reportable 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 caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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



Mary Taylor, CPA
Auditor of State

April 16, 2007

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2006**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control 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 noncompliance 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 # 87.027 and 87.173)
<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 2006-001

Ohio Revised Code § 5705.41 (D)(1) states that no subdivision shall make any contract or give any order involving the expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision. The fiscal officer must certify that the amount required to meet such a commitment has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrance. Further, contracts and orders for expenditures lacking prior certification shall be null and void.

**FINDING NUMBER 2006-001
(Continued)**

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 sections 5705.41 (D)(1) and 5705 (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 receipts of the "then and now" certificate to approve payment by ordinance or resolution.

Amounts of less than \$3,000 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. This does not eliminate any otherwise applicable requirement for approval of expenditures by the District.

2. **Blanket Certificate** – Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal 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.
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. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

The Treasurer did not certify 83 percent of funds prior to purchase commitment for expenditures that we tested and there was no evidence the District followed the aforementioned exceptions for these transactions. Failure to properly certify the availability of funds can result in overspending funds and negative cash 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 taxing authority'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 Treasurer certify purchases to which section 5705.41 (D) applies. The most convenient certification method is to use purchase orders that include the 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 commitment to the proper appropriation code to reduce the available appropriation.

**FINDING NUMBER 2006-001
 (Continued)**

Officials Response:

Margaretta Local School District has always demonstrated fiscal responsibility and has kept the devoted taxpayers of the District in mind when making all fiscal decisions with the resources made available to the District. Compliance and budgetary constraints has not been a focal point for the District in the past. We are taking strides to remedy the lack of compliance specifically addressed as citations for the fiscal year ending June 30, 2006.

FINDING NUMBER 2006-002

Ohio Revised Code § 5705.41 (B) states that no subdivision shall make any expenditure of money unless it has been lawfully appropriated. The District's legal level of control is the function level for the General Fund and fund level for all other funds. Ohio Revised Code § 5705.38 (C) and Ohio Administrative Code § 117-6-02 require that all funds be appropriated at least at the legal level of control established by the Board of Education, which is at least the fund level. As of June 30, 2006, the following funds had expenditures that exceeded appropriations at the legal level of control:

<u>Fund</u>	<u>Appropriations</u>	<u>Expenditures</u>	<u>Excess</u>
General Fund:			
Support Services			
Central		14,747	(14,747)
Operation of Non-Instructional Services	18,800	20,307	(1,507)
Nonmajor Funds:			
Public School Support		195,655	(195,655)
Athletics		222,431	(222,431)
Professional Development		4,175	(4,175)
EMIS Subsidy		1,140	(1,140)
Entry Year Grant		4,700	(4,700)
One Net/Network Connectivity		9,120	(9,120)
SchoolNet Professional Development		5,068	(5,068)
Ohio Reads		4,058	(4,058)
Summer School Intervention		6,101	(6,101)
Vocational Enhancement		5,400	(5,400)
Miscellaneous State Grants		2,937	(2,937)
Title VI-B		192,105	(192,105)
Title I		153,089	(153,089)
Chapter 2		255	(255)
Safe & Drug Free School		696	(696)
Classroom Reduction		55,310	(55,310)
Miscellaneous Federal Grants		3,745	(3,745)
Permanent Improvement	319,491	371,709	(52,218)
Expendable Trust Scholarship Fund - 007		18,600	(18,600)

**FINDING NUMBER 2006-002
 (Continued)**

Management was advised that the failure to have adequate appropriations in place at the time expenditures are being made could result in expenditures exceeding available resources, further resulting in deficit spending practices.

We recommend the Treasurer not certify the availability of funds and deny payment requests exceeding appropriations. The Treasurer may request the Board to approve increased expenditure levels by increasing appropriations and amending estimated resources, if necessary.

Officials Response:

Margaretta Local School District has always demonstrated fiscal responsibility and has kept the devoted taxpayers of the District in mind when making all fiscal decisions with the resources made available to the District. Compliance and budgetary constraints has not been a focal point for the District in the past. We are taking strides to remedy the lack of compliance specifically addressed as citations for the fiscal year ending June 30, 2006.

FINDING NUMBER 2006-003

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, 2006, the following funds had deficit balances as shown:

<u>Nonmajor Funds:</u>	<u>Deficit Balance</u>
Permanent Improvement	(\$7,951)
Food Service	(11,385)
E.I. Grant - Townsend	(34)
Professional Development	(5,465)
One Network/Network Connectivity	(904)
School Net Professional Development	(897)
Ohio Reads	(29)
Summer Intervention	(3,298)
Entry Year Grant	(1,100)
IDEA B Grant	(30,140)
Title I	(88,245)
Drug Free School Grant	(163)
Pre-School Grant	(187)
Class Size Reduction	(1,956)

The deficit balances in these funds were associated with expenditures that were paid from these funds that will be reimbursed through grant monies or by the District's General Fund. We recommend the Treasurer have the Board advance or transfer funds in accordance with the provisions of the Ohio Revised Code to cover these deficits pending receipt of the grant funds, if applicable.

**FINDING NUMBER 2006-003
(Continued)**

Officials Response:

Margaretta Local School District has always demonstrated fiscal responsibility and has kept the devoted taxpayers of the District in mind when making all fiscal decisions with the resources made available to the District. Compliance and budgetary constraints has not been a focal point for the District in the past. We are taking strides to remedy the lack of compliance specifically addressed as citations for the fiscal year ending June 30, 2006.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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None

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2006**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2005-001	ORC § 5705.41 (D)(1) Failure of Treasurer to certify expenditures.	No	Not corrected. Reissued as finding 2006-001.
2005-002	ORC § 5705.10 Deficit cash basis fund balances.	No	Not corrected. Reissued as finding 2006-003.
2005-003	ORC § 5705.39 Appropriations in excess of estimated resources	No	Not corrected. Reissued as management letter comment.
2005-004	ORC § 5705.41 (B) Expenditures exceeding appropriations.	No	Not corrected. Reissued as finding 2006-002.



Mary Taylor, CPA
Auditor of State

MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MAY 10, 2007