



**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2000



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY

TABLE OF CONTENTS

<u>TITLE</u>	<u>PAGE</u>
Report of Independent Accountants	1
Combined Statement of Cash, Investments, and Fund Cash Balances – All Fund Types	3
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances – All Governmental and Similar Fiduciary Fund Types	4
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances – All Proprietary and Similar Fiduciary Fund Types	6
Combined Statement of Receipts – Budget and Actual	7
Combined Statement of Disbursements and Encumbrances – Compared with Expenditure Authority	8
Notes to the Financial Statements	11
Schedule of Federal Awards Expenditures	21
Notes to the Schedule of Federal Awards Expenditures	22
Report of Independent Accountants on Compliance and on Internal Control Required by <i>Government Auditing Standards</i>	23
Report of Independent Accountants on Compliance with Requirements Applicable to the Major Federal Program and Internal Control Over Compliance in Accordance with OMB Circular A-133	25
Schedule of Findings	27

This Page Intentionally Left Blank



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

One Government Center
Room 1420
Toledo, Ohio 43604-2246
Telephone 419-245-2811
800-443-9276
Facsimile 419-245-2484
www.auditor.state.oh.us

REPORT OF INDEPENDENT ACCOUNTANTS

Margaretta Local School District
Erie County
305 South Washington Street
Castalia, Ohio 44824-9278

To the Board of Education:

We have audited the accompanying financial statements of the Margaretta Local School District, Erie County, Ohio, (the District) as of and for the year ended June 30, 2000. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

Ohio Administrative Code § 117-2-01 requires the District to prepare its financial report in accordance with generally accepted accounting principles. However, as described in Note 1, the District prepares its financial report on the basis of accounting formerly prescribed or permitted by the Auditor of State, which is a basis of accounting other than generally accepted accounting principles. The accompanying financial statements omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined cash, investments, and combined fund cash balances of the Margaretta Local School District, Erie County, Ohio, as of June 30, 2000, and its combined cash receipts and disbursements and its combined budgeted and actual receipts and budgeted and actual disbursements and encumbrances, for the year then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 1, 2000, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the District taken as a whole. The accompanying schedule of federal awards expenditures is presented for purposes of additional analysis as 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of management, the Board of Education, and other officials authorized to receive this report under § 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

Jim Petro
Auditor of State

December 1, 2000

MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY

COMBINED STATEMENT OF CASH, INVESTMENTS AND
FUND CASH BALANCES - ALL FUND TYPES
AS OF JUNE 30, 2000

Cash and Investments \$2,826,642

CASH BALANCES BY FUND TYPES

Governmental Fund Type:

General Fund	\$2,321,975
Special Revenue Funds	91,006
Capital Projects Funds	65,843

Proprietary Fund Type:

Enterprise Funds	42,159
------------------	--------

Fiduciary Fund Type:

Nonexpendable Trust Funds	235,570
Expendable Trust Funds	35,272
Agency Funds	<u>34,817</u>

Total	<u><u>\$2,826,642</u></u>
--------------	---------------------------

The notes to the financial statements are an integral part of this statement.

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND CHANGES IN
FUND CASH BALANCES - ALL GOVERNMENTAL AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2000**

	<u>Governmental Fund Types</u>			<u>Fiduciary Fund Type</u>	<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Expendable Trust</u>	
Cash Receipts					
Local Sources:					
Taxes	\$5,790,745		\$192,763		\$5,983,508
Tuition	34,321				34,321
Transportation Fees	6,520				6,520
Earnings on Investment	128,387	\$4,359	984	\$9,764	143,494
Extracurricular Activities		321,289		7,371	328,660
Classroom Materials and Fees	79,630				79,630
Miscellaneous Receipts	47,976	1,500		5,750	55,226
State Sources:					
Unrestricted Grants-In-Aid	4,153,488		17,984		4,171,472
Restricted Grants-In-Aid	49,594	11,711			61,305
Federal Sources:					
Restricted Grants-In-Aid		207,456			207,456
Total Cash Receipts	<u>10,290,661</u>	<u>546,315</u>	<u>211,731</u>	<u>22,885</u>	<u>11,071,592</u>
Cash Disbursements					
Instruction:					
Regular	4,046,438	22,338	33,947		4,102,723
Special	826,194	134,710			960,904
Vocational Education	297,969				297,969
Other	2,933			8,280	11,213
Support Services:					
Pupils	273,516	74,549			348,065
Instructional Staff	432,168	7,141			439,309
Board of Education	133,605		511		134,116
Administration	754,759	4,434			759,193
Fiscal	311,761		3,217		314,978
Operation and Maintenance - Plant	1,028,873				1,028,873
Central Services				22,258	22,258
Pupil Transportation	815,015				815,015
Non-instructional Services:					
Community Service	14,269				14,269
Other Non-Instructional Services		176,726		10,303	187,029
Extracurricular Activities:					
Academic and Subject Oriented	22,765	3,639			26,404
Sports Oriented	129,691	151,735			281,426
Co-curricular Activities	8,951				8,951
Building Acquisition and Construction			175,642		175,642
Debt Service:					
Repayment of Debt			47,727		47,727
Total Cash Disbursements	<u>9,098,907</u>	<u>575,272</u>	<u>261,044</u>	<u>40,841</u>	<u>9,976,064</u>
Excess of Cash Receipts Over (Under) Cash Disbursements	<u>1,191,754</u>	<u>(28,957)</u>	<u>(49,313)</u>	<u>(17,956)</u>	<u>1,095,528</u>

(Continued)

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND CHANGES IN
FUND CASH BALANCES - ALL GOVERNMENTAL AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2000
(Continued)**

	<u>Governmental Fund Types</u>			<u>Fiduciary Fund Type</u>	<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Expendable Trust</u>	
Other Financing Sources (Uses)					
Pass Through Payments	(10,122)				(10,122)
Refund of Prior Year Disbursements	2,543				2,543
Transfers-in		9,492		8,749	18,241
Transfers-out	(18,241)				(18,241)
Total Other Financing Sources (Uses)	(25,820)	9,492		8,749	(7,579)
Excess of Cash Receipts and Other Financing Sources Over (Under)					
Disbursements and Other Financing Uses	1,165,934	(19,465)	(49,313)	(9,207)	1,087,949
Fund Cash Balances at July 1, 1999	1,156,041	110,471	115,156	44,479	1,426,147
Fund Cash Balances at June 30, 2000	<u>\$2,321,975</u>	<u>\$91,006</u>	<u>\$65,843</u>	<u>\$35,272</u>	<u>\$2,514,096</u>

The notes to the financial statements are an integral part of this statement.

Note: The cash balance at July 1, 1999 contains a statutory reserve balance of \$119,358. At June 30, 2000, there is a restricted cash balance of \$143,699 in the budget stabilization reserve. See Note 10 to these financial statements.

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND CHANGES IN
FUND CASH BALANCES - ALL PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2000**

	Proprietary Fund Type	Fiduciary Fund Types		Totals (Memorandum Only)
	Enterprise	Nonexpendable Trust	Agency	
Operating Receipts				
Earnings on Investments		\$9,669		\$9,669
Extracurricular Activities			\$101,636	101,636
Food Service	\$380,869			380,869
Miscellaneous Receipts		4,225		4,225
Total Operating Receipts	380,869	13,894	101,636	496,399
Operating Disbursements				
Employees Salaries and Wages	202,366			202,366
Employees Retirement and Insurance	58,730			58,730
Purchased Services	1,925		69	1,994
Supplies and Materials	184,352		115,319	299,671
Capital Outlay	1,823			1,823
Other Objects		11,525		11,525
Total Operating Disbursements	449,196	11,525	115,388	576,109
Excess of Operating Receipts Over (Under) Operating Disbursements	(68,327)	2,369	(13,752)	(79,710)
Nonoperating Receipts				
Earnings on Investments	557		2,415	2,972
Miscellaneous Receipts			498	498
State Sources	4,567			4,567
Federal Sources	103,693			103,693
Total Nonoperating Receipts	108,817		2,913	111,730
Excess of Receipts Over (Under) Disbursements	40,490	2,369	(10,839)	32,020
Fund Cash Balances at July 1, 1999	1,669	233,201	45,656	280,526
Fund Cash Balances at June 30, 2000	\$42,159	\$235,570	\$34,817	\$312,546

The notes to the financial statements are an integral part of this statement.

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**COMBINED STATEMENT OF RECEIPTS
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2000**

	Budget	Actual	Variance: Favorable (Unfavorable)
Governmental Fund Type:			
General Fund	\$9,974,804	\$10,293,204	\$318,400
Special Revenue Funds	459,000	555,807	96,807
Capital Projects Funds	211,110	211,731	621
Proprietary Fund Type:			
Enterprise Funds	462,500	489,686	27,186
Fiduciary Fund Type:			
Trust and Agency Funds	150,000	150,077	77
Total	\$11,257,414	\$11,700,505	\$443,091

The notes to the financial statements are an integral part of this statement.

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**COMBINED STATEMENT OF DISBURSEMENTS AND
ENCUMBRANCES COMPARED WITH EXPENDITURE AUTHORITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2000**

	Prior Year Carryover Appropriations	2000 Appropriations	Total
Governmental Fund Type:			
General Fund	\$232,811	\$9,120,425	\$9,353,236
Special Revenue Funds	14,917		14,917
Capital Projects Funds	170,593	246,700	417,293
Proprietary Fund Type:			
Enterprise Funds	248	463,100	463,348
Fiduciary Fund Type:			
Trust Funds	160		160
Total	\$418,729	\$9,830,225	\$10,248,954

The notes to the financial statements are an integral part of this statement.

<u>Actual 2000 Disbursements</u>	<u>Encumbrances Outstanding at 6/30/00</u>	<u>Total</u>	<u>Variance: Favorable (Unfavorable)</u>
\$9,127,270	\$172,896	\$9,300,166	\$53,070
575,272	32,419	607,691	(592,774)
261,044	35,248	296,292	121,001
449,196	248	449,444	13,904
52,366	1,238	53,604	(53,444)
<u>\$10,465,148</u>	<u>\$242,049</u>	<u>\$10,707,197</u>	<u>(\$458,243)</u>

This page intentionally left blank.

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2000**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of The Entity

The Margarettta Local School District, Erie County, Ohio, (the District) is a local school district as defined by § 3311.03 of the Ohio Revised Code. The District operates under an elected Board of Education and is responsible for providing public education to the residents of the District.

The District operates three instructional facilities and provides educational services to students from grades 1 through 12.

The District believes these financial statements present all activities for which the District is accountable.

B. Funds Reported

1. General Fund

The general fund is the operating fund of the District. It is used to account for all financial resources except those required to be accounted for in other funds.

2. Special Revenue Funds

Special revenue funds account for the proceeds of specific revenue sources (other than capital projects or trust funds) that are legally restricted to expenditures for specified purposes.

3. Capital Projects Funds

Capital project funds account for financial resources to be used for the acquisition or construction of major capital facilities.

4. Enterprise Funds

Enterprise funds account for operations which are financed and operated in a manner similar to private business enterprises and for which the District intends to support a material portion of the operating costs with user charges.

5. Expendable Trust Funds

Expendable trust funds account for assets held in trust where both principal and interest can be spent.

6. Nonexpendable Trust Funds

Nonexpendable trust funds account for assets held in trust where the corpus of the trust is not expendable.

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2000
(Continued)**

7. Agency Funds

Agency funds are used to account for custodial funds held by the District acting as the agent for another government, organization, individual, or fund.

C. Basis of Accounting

Although required by Ohio Administrative Code § 117-2-01 to prepare its financial statements in accordance with generally accepted accounting principles, the District chooses to prepare its financial report on the basis of accounting formerly prescribed or permitted by the Auditor of State. This basis of accounting is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosures of material matters, as formerly prescribed or permitted by the Auditor of State.

D. Budgetary Process

1. Budget

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 appropriation resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated. The legal level of budgetary control is at the object level within each function. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

Advances in and Advances out are not required to be budgeted since they represent a temporary cash flow resource and are intended to be repaid.

2. 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 the County Budget Commission for rate determination.

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2000
(Continued)**

3. Estimated Resources

By April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the commission's certificate of estimated resources which states the projected revenue of each fund. Prior to 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.

Estimated receipts reported in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2000 and do not include the unencumbered fund balances as of July 1, 1999. However, those fund balances are available for appropriations.

4. 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 must be legally enacted by the Board of Education at the fund, function, and object level of expenditures, which are the legal levels of budgetary control. 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. Any revisions that alter the total of any fund appropriations or alter total function appropriations within a fund, or alter object appropriations within functions, 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. Formal budgetary integration is employed as a management control device during the year for all funds, other than agency funds, consistent with statutory provisions.

5. Encumbrances

As part of formal budgetary control, purchase orders, contracts and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. Encumbrances plus expenditures may not legally exceed appropriations at the legal level of control. In the budgetary financial statements, encumbrances are included in budgetary expenditures. The budgetary fund balance is cash minus outstanding encumbrances.

6. Lapsing of Appropriations

At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2000
(Continued)**

appropriation. Encumbered appropriations are carried forward to the succeeding fiscal year and are not reappropriated.

2. EQUITY IN POOLED CASH 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 two year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

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

State Statute permits 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 FINANCIAL STATEMENTS
JUNE 30, 2000
(Continued)**

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

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

During fiscal year 2000, the District's investments were limited to certificates of deposit, STAR Ohio, and federal securities. During the fiscal year, all investments of the District had a maturity of two years or less.

The carrying amount of cash and investments at June 30, 2000 was as follows:

Bank Deposits	
Demand Deposits	\$73,767
Certificates of Deposit	<u>458,489</u>
Total Bank Deposits	532,256
Investments	
Federal Securities	1,477,138
STAR Ohio	<u>817,248</u>
Total Investments	<u>2,294,386</u>
Total Bank Deposits and Investments	<u><u>\$2,826,642</u></u>

The following information classifies deposits and investments by categories of risk.

A. Deposits

At year-end, the carrying amount of the District's deposits was \$532,256 as shown above and the bank balance was \$663,698. The bank balance was covered by federal depository insurance, by eligible securities pledged by the financial institution as security for repayment, and by surety company bonds deposited with the Treasurer by the financial institution.

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2000
(Continued)**

B. Investments

The District's investments are categorized below to give an indication of the level of risk assumed at fiscal year end. Investments are usually categorized into three categories of credit risk:

Category 1: Securities held by the District or its agent in the District's name.

Category 2: Securities held by the counter party's trust department or agent in the District's name.

Category 3: Securities held by the counter party, or by its trust department or agent but not in the District's name.

The District's investments in STAR Ohio, an investment pool operated by the Ohio State Treasurer, are unclassified investments since they are not evidenced by securities that exist in physical or book entry form.

	Category 3	Carrying Value
Federal Securities	\$1,477,138	\$1,477,138
STAR Ohio		817,248
Totals	\$1,477,138	\$2,294,386

3. DEBT SERVICE

Debt outstanding at June 30, 2000 was as follows:

	Principal	Interest Rate
Tax Anticipation Notes	\$86,667	5%

The notes were issued October 1, 1997 in anticipation of collections from a tax levy passed by the voters of the District on May 6, 1997, for the purpose of permanent improvements.

Amortization of the above debt, including interest, is scheduled as follows:

Year ending June 30:	Tax Anticipation Notes
2000	\$47,667
2001	45,500
Total	\$93,167

4. PROPERTY TAX

Property taxes are levied and assessed on a calendar year basis. Second half distributions occur in a new fiscal year. Property taxes include amounts levied against all real, public utility and tangible

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2000
(Continued)**

personal (used in business) property located in the District. Real property taxes are levied after April 1 on the assessed value listed as of the prior January 1, the lien date. Public utility property taxes attached as a lien on December 31 of the prior year, are levied April 1 and are collected with real property taxes. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. All property is required to be revalued every six years.

Public utility property taxes are assessed on tangible personal property at eighty-eight percent of true value (with certain exceptions) and on real property at thirty-five percent of true value. Tangible personal property taxes are levied after April 1 on the value listed as of December 31 of the current year. Tangible personal property assessments are twenty-five percent of true 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. Tangible personal property taxes paid 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.

The District receives property taxes from Erie County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County

The County is responsible for assessing property, and for billing, collecting, and distributing all property taxes on behalf of the District.

5. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer public employee retirement system administered by the School Employees Retirement Board. SERS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information for SERS. That report may be obtained by writing to the School Employees Retirement System, 45 North Fourth Street, Columbus, Ohio 43215-3634.

Contributions rates are also prescribed by the Ohio Revised Code. For fiscal year 2000, plan members contributed 9 percent of their annual covered salary and the District contributed 14 percent. The District has paid all contributions required through June 30, 2000.

B. State Teachers Retirement System

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2000
(Continued)**

includes financial statements and required supplementary information for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

Contributions rates are also prescribed by the Ohio Revised Code. For fiscal year 2000, members of STRS contributed 9.3 percent of their wages to the SERS. The District contributed an amount equal to 14 percent of their wages. The District has paid all contributions required through June 30, 2000.

6. RISK MANAGEMENT

The District has obtained commercial insurance for the following risks:

- Comprehensive property and general liability
- Vehicles
- Errors and omissions

7. PUBLIC ENTITY RISK POOLS

A. Workers' Compensation

The District participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The GRP'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 program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

B. Health Benefits

The Huron-Erie School Employees Insurance Association is a shared risk pool, with participants from Erie and Huron Counties. The Association is governed by an assembly which consists of one representative from each participant. The assembly elects officers for two year terms to serve as the Board of Directors. The assembly exercises control over the operation of the Association. All Association revenues are generated from charges for services. Financial information can be obtained by writing to The Erie-Ottawa County Educational Service Center, 2900 South Columbus Avenue, Sandusky, Ohio 44870.

8. STATE SCHOOL FUNDING DECISION

On March 24, 1997, the Ohio Supreme Court rendered a decision declaring certain portions of the Ohio school funding plan unconstitutional. The Court stayed the effect of its ruling for one year to allow the State's legislature to design a plan to remedy the perceived defects in the system. Declared unconstitutional was the State's "school foundation program", which provides significant amounts of monetary support to the School District. During the fiscal year ended June 30, 2000, the District received \$3,690,988 of school foundation support for its general fund.

Since the Supreme Court ruling, numerous pieces of legislation have been passed by the State General Assembly in an attempt to address the issues identified by the Court. The Court of Common

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2000
(Continued)**

Pleas in Perry County reviewed the new laws and, in a decision issued on February 26, 1999, determined they are not sufficiently responsive to the constitutional issues raised under the "thorough and efficient" clause of the Ohio Constitution. The State appealed the decision made by the Court of Common Pleas to the Ohio Supreme Court. On May 11, 2000, the Ohio Supreme Court rendered an opinion on this issue. The Court concluded, "...the mandate of the [Ohio] Constitution has not been fulfilled." The Court's majority recognized efforts by the Ohio General Assembly taken in response to the Court's March 24, 1997, decision, however, it found seven "...major areas warrant further attention, study, and development by the General Assembly..." including the State's reliance on local property tax funding, the state's basic aid formula, the school foundation program, as discussed above, the mechanism for, and adequacy of, funding for school facilities, and the existence of the State's School Solvency Assistance Fund, which the Court found took the place of the unconstitutional emergency school loan assistance program.

The Court decided to maintain jurisdiction over these issues and continued the case at least until June 15, 2001.

As of the date of these financial statements, the District is unable to determine what effect, if any, this ongoing litigation will have on its future State funding under this program (these programs) and on its financial operations.

9. COMPLIANCE

As of June 30, 2000, the following funds had expenditures and encumbrances in excess of appropriations:

<u>Name of Fund</u>	<u>Amount</u>
General Fund	\$46,486
Public School Support Fund	189,112
Athletic Fund	158,640
Professional Development Block Grant	1,219
Education Management Information System Fund	6,499
Textbook Instruction Material	21,941
Safe School Help	1,386
Title VI-B Fund	92,953
Pre-School Grant Fund	7,942
Title I Fund	101,585
Title 6 Fund	891
E-Rate Fund	4,434
Goals 2000	5,250
School Net Professional Development	922
School Net Fund	320
Scholarship Fund	41,919
Nonexpendable Trust Fund	11,525

During the year ended June 30, 2000, the District did not consistently certify the availability of funds prior to a commitment being incurred.

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2000
(Continued)**

10. SET-ASIDE CALCULATIONS AND FUND RESERVES

The District is required by State statute to annually set aside in the general fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by year-end or offset by similarly restricted resources received during the year must be held in cash at year-end and carried forward to be used for the same purposes in future years. The District is also required to set aside money for budget stabilization.

The following cash basis information describes the change in the year-end set-aside amounts for textbooks, capital acquisition, and budget stabilization. Disclosure of this information is required by State statute.

	Textbooks	Capital Acquisition	Budget Stabilization
Set-aside Cash Balance as of June 30, 1999			\$119,358
Current Year Set-aside Requirement	227,326	227,326	75,775
Current Year Offsets		(188,824)	(51,434)
Qualifying Disbursements	(375,405)	(618,673)	
Total	(\$148,079)	(\$580,171)	\$24,341
Cash Balance Carried Forward to FY 2000	(\$148,079)		\$143,699
Total Restricted Assets			\$143,699

Although the District has offsets and qualifying disbursements during the year that reduced the set-aside requirements below zero, only the amount for textbooks may be used to reduce the set-aside requirements of future years.

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
JUNE 30, 2000**

FEDERAL GRANTOR <i>Pass-Through Grantor</i> Program Title	Federal CFDA Number	Pass Through Entity Number	Receipts	Non-cash Receipts	Disburse- ments	Non-cash Disburse- ments
UNITED STATES DEPARTMENT OF EDUCATION						
<i>Passed Through Ohio Department of Education</i>						
Local Educational Agencies-Title 1	84.010	C1-S1-99	\$36,647		\$34,944	
		C1-S1-00	<u>57,948</u>		<u>65,535</u>	
Total Title 1			94,595		100,479	
Innovative Education Program Strategies	84.298	C2-S1-97				
		C2-S1-99	1,035		303	
		C2-S1-00	<u>2,363</u>		<u>87</u>	
Total Innovative Education Program Strategies			3,398		390	
Special Education Cluster:						
Special Education Grants to States	84.027	6B-SF-99	15,015		6,026	
		6B-SF-00	68,589		86,927	
Special Education - Preschool Grant	84.173	PG-S1-00	<u>7,942</u>		<u>7,942</u>	
Total Special Education Cluster			91,546		100,895	
Pathfinders Network Grant Goals 2000	84.276	G2-S2-99			5,000	
Reducing Class Size	84.340	CR-S1-00	<u>7,347</u>			
Total United States Department of Education			<u>196,886</u>		<u>206,764</u>	
UNITED STATES DEPARTMENT OF AGRICULTURE						
<i>Passed Through Ohio Department of Education:</i>						
Nutrition Cluster:						
Food Distribution Program	10.550	-		33,049		37,014
National School Lunch Program	10.555	03-PU-00-99	12,411		12,411	
		03-PU-00-00	24,112		24,112	
		04-PU-00-99	23,900		23,900	
		04-PU-00-00	<u>43,270</u>		<u>43,270</u>	
Total Nutrition Cluster			<u>103,693</u>		<u>103,693</u>	
Total United States Department of Agriculture			<u>103,693</u>	33,049	103,693	37,014
Total Federal Financial Assistance			<u>\$ 300,579</u>	<u>\$ 33,049</u>	<u>\$ 310,457</u>	<u>\$ 37,014</u>

The notes to the schedule of federal awards expenditures are an integral part of this schedule.

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2000**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - FOOD DISTRIBUTION

Nonmonetary assistance, such as food received from the U.S. Department of Agriculture, is reported in the Schedule at the fair market value of the commodities received and consumed. Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first. At June 30, 2000, the District had no significant food commodities in inventory.



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

One Government Center
Room 1420
Toledo, Ohio 43604-2246
Telephone 419-245-2811
800-443-9276
Facsimile 419-245-2484
www.auditor.state.oh.us

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

Margaretta Local School District
Erie County
305 South Washington Street
Castalia, Ohio 44824-9278

To the Board of Education:

We have audited the financial statements of the Margaretta Local School District, Erie County, Ohio, (the District) as of and for the year ended June 30, 2000, and have issued our report thereon dated December 1, 2000, in which we noted that the District has prepared its annual financial report on a basis other than generally accepted accounting principles. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2000-10522-001 through 2000-10522-003. We also noted certain immaterial instances of noncompliance that we have reported to management of the District in a separate letter dated December 1, 2000.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated December 1, 2000.

Margaretta Local School District
Erie County
Report of Independent Accountants on Compliance and on
Internal Control Required by *Government Auditing Standards*
Page 2

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

Jim Petro
Auditor of State

December 1, 2000



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

One Government Center
Room 1420
Toledo, Ohio 43604-2246
Telephone 419-245-2811
800-443-9276
Facsimile 419-245-2484
www.auditor.state.oh.us

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

Margaretta Local School District
Erie County
305 South Washington Street
Castalia, Ohio 44824-9278

To the Board of Education:

Compliance

We have audited the compliance of the Margaretta Local School District, Erie County, Ohio, (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2000. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2000.

Internal Control Over Compliance

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

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

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

Jim Petro
Auditor of State

December 1, 2000

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2000**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	Title 1 - CFDA #84.010 Child Nutrition Cluster - CFDA #10.550 and #10.555
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

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

FINDING NUMBER 2000-10522-001

Noncompliance Citation

Ohio Administrative Code § 117-2-01 requires the District to prepare its annual financial report in accordance with generally accepted accounting principles (GAAP). However, the District prepared its annual financial report for fiscal year 2000 on the basis of accounting formerly prescribed or permitted by the Auditor of State, which is a basis of accounting other than generally accepted accounting principles. The accompanying financial statements omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. The District can be fined and various other legal remedies may be taken against the District.

We recommend that the District file their financial report in accordance with GAAP.

The District understands this requirement but feels there is no cost-benefit to converting to GAAP.

FINDING NUMBER 2000-10522-002

Noncompliance Citation

Ohio Revised Code § 5705.41 (B) prohibits a subdivision from making an expenditure unless it has been properly appropriated. The District had various funds where expenditures and encumbrances exceeded appropriations. As of June 30, 2000, the following fund types had expenditures and encumbrances in excess of appropriations:

<u>Name of Fund Type</u>	<u>Appropriations</u>	<u>Expenditures and Encumbrances</u>	<u>Variance</u>
Special Revenue Funds	\$14,917	\$607,691	(\$592,774)
Expendable Trust Funds	160	42,079	(41,919)
Nonexpendable Trust Funds		11,525	(11,525)

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

The District's annual appropriation resolution approved by the Board only reflected appropriations for the General, Permanent Improvement, and Food Service Fund. The only appropriations for Special Revenue funds were carryover appropriations for fiscal year 1999. The District believes that the Board of Education has a better overview of the actual costs of operations and does not need to appropriate for Special Revenue funds which consists of mainly state or federally funded programs. Also, this allows various teachers, principals and the athletic department to only spend whatever the actual cash balance is at that time and reduces the chances of deficit balances to exist in these funds. We recommend that all funds be budgeted in accordance with budgetary laws to assist the District in monitoring expenditures.

FINDING NUMBER 2000-10522-003

Noncompliance Citation

Ohio Revised Code § 5705.41 (D) states that no subdivision shall make any contract or order any expenditure of money unless the certificate of the fiscal officer is attached. The fiscal officer must certify that the total 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 appropriated fund free from any previous encumbrance. This section provides two exceptions to the above requirements:

- A. Then and Now Certificate - if no certificate is furnished as required, upon receipt of the fiscal officer's certificate that a sufficient sum was appropriated and free of any previous encumbrance, the governing authority may authorize the issuance of a warrant in payment of the amount due upon such contracts or order by resolution within 30 days from the receipt of such certificates, if such expenditure is otherwise valid.
- B. If the amount is less than \$1000, the fiscal officer may authorize it to be paid without the affirmation of the governing authority, if such expenditure is otherwise valid.

Seventy percent of tested transactions did not have the required certification attached. The District did not print all purchase orders issued, which contain the certification statement, thus the certification statement did not bear the Treasurer's signature attesting to the certification.

This situation could allow expenditures to exceed available resources. We recommend that the District print purchase orders for all expenditures and the Treasurer sign the certification statement.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
--

None.



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490

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
DECEMBER 21, 2000**