



**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 1999



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

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REPORT OF INDEPENDENT ACCOUNTANTS

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 Margaretta Local School District, Erie County, Ohio, (the District) as of and for the year ended June 30, 1999. 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, 1999, 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 January 27, 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.

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

January 27, 2000

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**COMBINED STATEMENT OF CASH, INVESTMENTS AND
FUND CASH BALANCES - ALL FUND TYPES
AS OF JUNE 30, 1999**

Cash and Investments	<u>\$1,706,673</u>
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CASH BALANCES BY FUND TYPES

Governmental Fund Type:

General Fund	\$1,156,041
Special Revenue Funds	110,471
Capital Projects Funds	115,156

Proprietary Fund Type:

Enterprise Funds	1,669
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Fiduciary Fund Type:

Nonexpendable Trust Funds	233,201
Expendable Trust Funds	44,478
Agency Funds	<u>45,657</u>

Total	<u>\$1,706,673</u>
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The notes to the financial statements are an integral part of this statement.

**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, 1999**

	Governmental Fund Types			Fiduciary Fund Type	Totals (Memorandum Only)
	General	Special Revenue	Capital Projects	Expendable Trust	
Cash Receipts					
Local Sources:					
Taxes	\$5,058,837		\$188,824		\$ 5,247,661
Tuition	10,203				10,203
Transportation Fees	7,730				7,730
Earnings on Investment	59,374	\$4,464	1,468	\$9,779	75,085
Extracurricular Activities		324,424		5,354	329,778
Classroom Materials and Fees	71,633				71,633
Miscellaneous Receipts	33,029	2,373		3,715	39,117
State Sources:					
Unrestricted Grants-In-Aid	3,992,096		17,793		4,009,889
Restricted Grants-In-Aid		35,562	138,294		173,856
Federal Sources:					
Restricted Grants-In-Aid		214,047			214,047
Total Cash Receipts	9,232,902	580,870	346,379	18,848	10,178,999
Cash Disbursements					
Instruction:					
Regular	4,114,658	41,397	148,545		4,304,600
Special	735,369	142,407			877,776
Vocational Education	259,593				259,593
Other	1,772			8,557	10,329
Support Services:					
Pupils	323,910	60,554			384,464
Instructional Staff	388,059	8,700			396,759
Board of Education	80,329		654		80,983
Administration	677,510	31			677,541
Fiscal	273,884		5,575		279,459
Operation and Maintenance - Plant	943,412				943,412
Central Services				30,553	30,553
Pupil Transportation	523,497				523,497
Non-instructional Services:					
Community Service	12,078				12,078
Other Non-Instructional Services		170,746		18,391	189,137
Extracurricular Activities:					
Academic and Subject Oriented	22,936	148			23,084
Sports Oriented	121,996	143,552			265,548
Co-curricular Activities	9,109				9,109
Building Acquisition and Construction			86,980		86,980
Debt Service:					
Repayment of Debt			49,924		49,924
Total Cash Disbursements	8,488,112	567,535	291,678	57,501	9,404,826
Excess of Cash Receipts Over (Under) Cash Disbursements	744,790	13,335	54,701	(38,653)	774,173
Other Financing Sources (Uses)					
Pass Through Payments	(11,367)				(11,367)
Refund of Prior Year Disbursements	247				247
Transfers-in		7,416		35,870	43,286
Transfers-out	(43,286)				(43,286)
Total Other Financing Sources (Uses)	(54,406)	7,416	35,870	35,870	(11,120)
Excess of Cash Receipts and Other Sources Over (Under) Disbursements and Other Uses	690,384	20,751	54,701	(2,783)	763,053
Fund Cash Balances at July 1, 1998	465,657	89,720	60,455	47,261	663,093
Fund Cash Balances at June 30, 1999	\$1,156,041	\$110,471	\$115,156	\$44,478	\$1,426,146

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

Note: The cash balances at July 1, 1998, contain no statutory reserve balances. At June 30, 1999, there is a restricted cash balance of \$119,358 in the budget stabilization reserve. See Note 12 to these financial statements.

**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, 1999**

	Proprietary Fund Type	Fiduciary Fund Types		Totals (Memorandum Only)
	Enterprise	Nonexpendable Trust	Agency	
Operating Receipts				
Earnings on Investments		\$10,518		\$10,518
Extracurricular Activities			\$105,512	105,512
Food Service	\$370,244			370,244
Miscellaneous Receipts		7,715		7,715
Total Operating Receipts	<u>370,244</u>	<u>18,233</u>	<u>105,512</u>	<u>493,989</u>
Operating Disbursements				
Employees Salaries and Wages	191,455			191,455
Employees Retirement and Insurance	59,403			59,403
Purchased Services	1,985		6,841	8,826
Supplies and Materials	187,065		94,987	282,052
Capital Outlay	1,174			1,174
Other Objects		10,725		10,725
Total Operating Disbursements	<u>441,082</u>	<u>10,725</u>	<u>101,828</u>	<u>553,635</u>
Excess of Operating Receipts Over (Under) Operating Disbursements	(70,838)	7,508	3,684	(59,646)
Nonoperating Receipts				
Earnings on Investments	96		2,345	2,441
Miscellaneous Receipts			555	555
State Sources	4,115			4,115
Federal Sources	92,996			92,996
Total Nonoperating Receipts	<u>97,207</u>		<u>2,900</u>	<u>100,107</u>
Excess of Receipts Over (Under) Disbursements	26,369	7,508	6,584	40,461
Fund Cash Balances at July 1, 1998	(24,700)	225,693	39,073	240,066
Fund Cash Balances at June 30, 1999	<u>\$1,669</u>	<u>\$233,201</u>	<u>\$45,657</u>	<u>\$280,527</u>

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

**COMBINED STATEMENT OF RECEIPTS
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 1999**

	Budget	Actual	Variance: Favorable (Unfavorable)
Governmental Fund Type:			
General Fund	\$9,029,740	\$9,233,149	\$203,409
Special Revenue Funds	419,000	588,286	169,286
Capital Projects Funds	434,513	346,379	(88,134)
Proprietary Fund Type:			
Enterprise Funds	425,000	467,451	42,451
Fiduciary Fund Type:			
Trust and Agency Funds	150,000	181,363	31,363
Total	\$10,458,253	\$10,816,628	\$358,375

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

**COMBINED STATEMENT OF DISBURSEMENTS AND
ENCUMBRANCES COMPARED WITH EXPENDITURE AUTHORITY
FOR THE FISCAL YEAR ENDED JUNE 30, 1999**

	Prior Year Carryover <u>Appropriations</u>	1999 <u>Appropriations</u>
Governmental Fund Type:		
General Fund	\$80,285	\$8,855,425
Special Revenue Funds	6,481	
Capital Projects Funds	69,284	193,000
Proprietary Fund Type:		
Enterprise Funds	50	445,000
Fiduciary Fund Type:		
Trust and Agency Funds	_____	_____
Total	<u><u>\$156,100</u></u>	<u><u>\$9,493,425</u></u>

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

<u>Total</u>	<u>Actual 1999 Disbursements</u>	<u>Encumbrances Outstanding at 6/30/99</u>	<u>Total</u>	<u>Variance: Favorable (Unfavorable)</u>
\$8,935,710	\$8,542,765	\$232,811	\$8,775,576	\$160,134
6,481	567,535	14,917	582,452	(575,971)
262,284	291,678	170,593	462,271	(199,987)
445,050	441,082	248	441,330	3,720
	170,054	160	170,214	(170,214)
<u>\$9,649,525</u>	<u>\$10,013,114</u>	<u>\$418,729</u>	<u>\$10,431,843</u>	<u>(\$782,318)</u>

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NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of The Entity

The Margaretta 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.

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(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.

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

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

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 1999 and do not include the unencumbered fund balances as of July 1, 1998. 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 appropriation. Encumbered appropriations are carried forward to the succeeding fiscal year and are not reappropriated.

NOTE 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.

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

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;
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

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

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 1999, 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, 1999 was as follows:

Bank Deposits	
Demand Deposits	\$343,135
Certificate of Deposit	<u>206,989</u>
Total Bank Deposits	550,124
STAR Ohio	<u>1,156,549</u>
Total Bank Deposits and Investments	<u><u>\$1,706,673</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 \$ 550,124 as shown above and the bank balance was \$580,012. The bank balance was covered by federal depository insurance and by collateral held by a qualified third party trustee in single institution collateral pools securing all public funds on deposit with specific depository institutions.

B. Investments

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.

NOTE 3 – DEBT SERVICE

Debt outstanding at June 30, 1999 was as follows:

	Principal	Interest
Tax Anticipation Notes	<u><u>\$86,667</u></u>	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:

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

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

NOTE 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 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.

NOTE 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.

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

Plan members are required to contribute 9 percent of their annual covered salary and the District is required to contribute 14 percent; for fiscal year 1999, 9.02 percent was the portion to fund pension obligations. The contribution rates are not determined actuarially, but are established by SERS's Retirement Board within the rates allowed by State statute. The adequacy of the contribution rates is determined annually. The District has paid all contributions required through June 30, 1999.

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 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.

Plan members are required to contribute 9.3 percent of their annual covered salary and the District is required to contribute 14 percent; 6 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The District has paid all contributions required through June 30, 1999.

NOTE 6 – 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 on a pay-as-you-go basis.

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent, of covered payroll. For this fiscal year, the Board allocated employer contributions equal to eight percent of covered payroll to the Health Care Reserve Fund. STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$2.156 billion at June 30, 1998 (the latest information available). For the year ended June 30, 1998 (the latest information available), net health care costs paid by STRS were \$219.224 million and STRS had 91,999 eligible benefit recipients.

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

For this fiscal year, employer contributions to fund health care benefits were 4.98 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 1999, the minimum pay has been established at \$12,400. The surcharge, added to the unallocated portion of the

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

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 125 percent of annual health care expenses. Expenses for health care at June 30, 1998 (the latest information available), were \$111.9 million and the target level was \$139.9 million. At June 30, 1998 (the latest information available), SERS had net assets available for payment of health care benefits of \$160.3 million and SERS had approximately 50,000 participants receiving health care benefits.

NOTE 7 – RISK MANAGEMENT

The District has obtained commercial insurance for the following risks:

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

NOTE 8 – 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.

NOTE 9 -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, 1999, the School District received \$2,937,748 of school foundation support for its general fund.

Since the Supreme Court ruling, numerous pieces of legislation have been passed by the State legislature in an attempt to address the issues identified by the Court. The Court of Common Pleas in Perry County has reviewed the new laws and, in a decision issued on February 26, 1999, determined they are not

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

sufficiently responsive to the constitutional issues raised under the “thorough and efficient” clause of the Ohio Constitution. The State has appealed the decision made by the Court of Common Pleas to the Ohio Supreme Court. As of June 30, 1999, The Ohio Supreme Court has not rendered an opinion on this issue. The decision of the Court of Common Pleas in Perry County has been stayed by the Ohio Supreme Court, and, as such, school districts are still operating under the laws that the Common Pleas Court declared unconstitutional.

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 and on its financial operations.

NOTE 10 – YEAR 2000 ISSUE

The year 2000 issue is the result of shortcomings in many electronic data processing systems and other electronic equipment that may adversely affect the government’s operations as early as fiscal year 1999.

The District has completed an inventory of computer systems and other electronic equipment that may be affected by the year 2000 issue and that are necessary to conducting District operations and has identified such systems as being financial reporting, payroll and employee benefits, and educational statistics reporting (through the State’s Education Management and Information System (EMIS)).

The District uses the State of Ohio Uniform School Accounting System software for its financial reporting, and the State of Ohio Uniform Staff Payroll System software for its payroll and employee benefits. The State is responsible for remediating these systems.

The State of Ohio distributes a substantial sum of money to the District in the form of “Foundation” and federal and state grant payments. Further, the State processes a significant amount of financial and non-financial information about the District through EMIS. The State is responsible for remediating these systems.

Erie County collects property taxes for distribution to the District. Erie County is responsible for remediating the tax collection system.

The County is solely responsible for any costs associated with the tax collection system project. The State is solely responsible for any costs associated with the Foundation processing and EMIS systems.

To the best of management’s knowledge and belief, as of January 25, 2000, the District experienced no interruption of operations or services related to the Year 2000 issue. However, because of the unprecedented nature of the Year 2000 issue, matters may yet arise, and parties with whom the District does business may also experience Year 2000 readiness issues that are as yet, unknown.

NOTE 11 – COMPLIANCE

As of June 30, 1999, the following funds had expenditures and encumbrances in excess of appropriations:

Name of Fund	Amount
Public School Support Fund	\$175,649
Jennings Grant Fund	48
District Athletic Fund	147,783
Professional Development Block Grant	4,237

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

<u>Name of Fund</u>	<u>Amount</u>
Education Management Information System Fund	3,600
Textbook Instruction Material	28,254
Library Automation	7,977
Title VI-B Fund	86,026
Title I Fund	105,185
Chapter II Fund	9,576
E-Rate Fund	31
Permanent Improvement Fund	72,292
Pre-School Grant Fund	7,605
School Net and Net Plus Fund	127,695
Scholarship Fund	57,661
Non- Expendable Trust Fund	10,725

As of June 30, 1999, the following funds had deficit fund cash balances in the following amounts:

<u>Name of Fund</u>	<u>Amount</u>
Title VI-B Fund	\$23,676
Title I	4,279

During the year ended June 30, 1999, the District did not consistently certify the availability of funds prior to a commitment being incurred.

NOTE 12 - 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 School 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.

	<u>Textbooks</u>	<u>Capital Acquisition</u>	<u>Budget Stabilization</u>
Set-aside Cash Balance as of June 30, 1998			\$51,869
Current Year Set-aside Requirement	\$134,978	\$134,978	67,489
Current Year Offsets		(128,567)	
Qualifying Disbursements	(427,881)	(233,917)	
Total	<u>(\$292,903)</u>	<u>(\$227,506)</u>	<u>\$67,489</u>
Cash Balance Carried Forward to FY 2000	<u>(\$292,903)</u>	<u>(\$227,506)</u>	<u>\$119,358</u>
Total Restricted Cash at Year End			<u><u>\$119,358</u></u>

Although the District has offsets and qualifying disbursements during the year that reduced the set-aside requirements below zero, those extra amounts may not be used to reduce the set-aside requirements of future years. Negative amounts are therefore not presented as being carried forward to the next fiscal year.

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SCHEDULE OF FEDERAL AWARDS EXPENDITURES
JUNE 30, 1999

FEDERAL GRANTOR <i>Pass-Through Grantor</i> Program Title	Federal CFDA Number	Pass Through Entity Number
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UNITED STATES DEPARTMENT OF EDUCATION
Passed Through Ohio Department of Education

Local Educational Agencies-Title 1	84.010	C1-S1-98 C1-S1-99
Total Title 1		

Innovative Education Program Strategies (Chapter 2)	84.298	C2-S1-96 C2-S1-97 C2-S1-98 C2-S1-99
Total Innovative Education Program Strategies		

Special Education Cluster:

Special Education Grants to States	84.027	6B-SF-97 6B-SF-98 6B-SF-99
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Special Education - Preschool Grant Total Special Education Cluster	84.173	PG-S1-99
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E-Rate Telecommunications Subsidy	84.XXX	-
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Pathfinders Network Grant Goals 2000	84.276	G2-S2-99
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Total United States Department of Education

UNITED STATES DEPARTMENT OF AGRICULTURE
Passed Through Ohio Department of Education:

Nutrition Cluster:

Food Distribution Program	10.550	-
National School Lunch Program	10.555	03-PU-00-98 03-PU-00-99 04-PU-00-98 04-PU-00-99

Total United States Department of Agriculture

Total Federal Financial Assistance

The accompanying notes are an integral part of this schedule.

<u>Receipts</u>	<u>Non-cash Receipts</u>	<u>Transfers In</u>	<u>Disbursements</u>	<u>Non-cash Disbursements</u>
\$31,716			\$34,316	
67,134			71,414	
<u>98,850</u>			<u>105,730</u>	
		158		
			474	
			4,577	
5,869			<u>4,506</u>	
<u>5,869</u>		158	<u>9,557</u>	
		7,258		
27,720			8,763	
62,553			77,263	
7,605			<u>7,605</u>	
<u>97,878</u>		7,258	<u>93,631</u>	
173			31	
5,000			<u>11,081</u>	
<u>207,770</u>		7,416	<u>220,030</u>	
	33,463			34,121
11,195			11,195	
20,016			20,016	
22,038			22,038	
39,747			<u>39,747</u>	
92,996	33,463		<u>92,996</u>	<u>34,121</u>
<u>\$ 300,766</u>	<u>\$ 33,463</u>	<u>\$ 7,416</u>	<u>\$ 313,026</u>	<u>\$ 34,121</u>

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 1999**

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

Non-monetary 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, 1999, the District had no significant food commodities in inventory.



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**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 44824-9263

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, 1999, and have issued our report thereon dated January 27, 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 1999-10522-001 through 1999-10522-004. We also noted certain immaterial instances of noncompliance that we have reported to management of the District in a separate letter dated January 27, 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 January 27, 2000.

This report is intended for the information and use of management, the Board of Education, and 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

January 27, 2000



STATE OF OHIO
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**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 44824-9263

To the Board of Education:

Compliance

We have audited the compliance of the Margaretta Local School District, Erie County, Ohio, (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 1999. 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, 1999.

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, and 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

January 27, 2000

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 1999

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 & #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 1999-10522-001

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 1999 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 1999-10522-002

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, 1999, 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	\$6,481	\$582,452	(\$575,971)
Capital Project Funds	262,284	462,271	(199,987)
Expendable Trust Funds	0	57,661	(57,661)
Nonexpendable Trust Funds	0	10,725	(10,725)

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 1998. 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 for those funds under direct operation of 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 1999-10522-003

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 2 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.

Fifty-seven 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.

FINDING NUMBER 1999-10522-004

Noncompliance Citation

Ohio Revised Code § 5705.10 states that money paid into any fund shall be used only for the purpose for which such fund is established. As described in Note 11 to the financial statements, the District had various funds with deficit balances. As of June 30, 1999, the following funds had deficit balances:

<u>Name of Fund</u>	<u>Amount</u>
Title VI-B Fund	\$23,676
Title I	4,279

Deficit balances indicate that money from other funds have been used to pay the obligations of such funds. Management was informed that advances can be made to the funds to cover expenditures until the actual monies are received.



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MARGARETTA LOCAL SCHOOL DISTRICT

ERIE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
FEBRUARY 22, 2000**