



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY

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STATE OF OHIO
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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 (the District) as of and for the year ended June 30, 2002. 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 auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Ohio Administrative Code §117-2-03 (B) requires the District to prepare its annual financial report in accordance with generally accepted accounting principles. However, as discussed in Note 2, the accompanying financial statements and notes have been prepared on a basis of accounting in accordance with standards established by the Auditor of State for governmental entities that are not required to prepare annual reports in accordance with generally accepted accounting principles. This basis of accounting is a comprehensive basis of accounting other than generally accepted accounting principles. The accompanying financial statements and notes 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, as of June 30, 2002, and its combined cash receipts and disbursements, 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 2.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2002, 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 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 financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of management, the Board of Education, federal awarding agencies, pass-through entities, 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.

A handwritten signature in black ink, appearing to read "Jim Petro", with a large, stylized flourish at the end.

Jim Petro
Auditor of State

November 14, 2002

MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY

COMBINED STATEMENT OF CASH, INVESTMENTS AND
FUND CASH BALANCES - ALL FUND TYPES
AS OF JUNE 30, 2002

Cash and Investments	<u><u>\$5,484,866</u></u>
Governmental Fund Types:	
General Fund	\$4,924,052
Special Revenue Funds	172,004
Capital Projects Funds	16,699
Proprietary Fund Type:	52,538
Enterprise Funds	
Fiduciary Fund Type:	
Trust and Agency Funds	<u>319,573</u>
Total	<u><u>\$5,484,866</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, 2002**

	<u>Governmental Fund Types</u>		
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>
Cash Receipts:			
From local sources:			
Taxes	\$6,047,763		\$199,346
Tuition	51,274		
Extracurricular Activities		\$382,775	
Earnings on investments	206,053	5,578	45
Classroom Materials and Fees	77,318		
Other local revenues	56,175	1,955	
Intergovernmental - State	4,909,231	28,872	43,536
Intergovernmental - Federal		239,249	
Total Cash Receipts	<u>11,347,814</u>	<u>658,429</u>	<u>242,927</u>
Cash Disbursements:			
Current:			
Instruction:			
Regular	4,576,449	20,515	85,578
Special	967,701	148,930	
Vocational	315,929		
Other		4,058	
Support services:			
Pupil	370,338	102,935	
Instructional staff	491,487	12,740	
Board of Education	135,057		317
Administration	843,648		
Fiscal	330,464		3,283
Operations and maintenance	1,230,932		
Pupil transportation	736,789		
Operation of Non-Instructional Services	17,129	173,270	
Extracurricular activities	185,252	189,743	
Facilities services	21,159		139,285
Total Cash Disbursements	<u>10,222,334</u>	<u>652,191</u>	<u>228,463</u>
Excess of Cash Receipts Over (Under) Cash Disbursements	1,125,480	6,238	14,464
Other Financing Sources (Uses):			
Operating transfers in		3,572	
Operating transfers out	(15,700)		
Pass Throughs	(19,219)		
Refund of Prior Year Expenditures	11,152	134	
Total Other Financing Sources (Uses)	<u>(23,767)</u>	<u>3,706</u>	
Excess of Cash Receipts and Other Financing Sources Over (Under) Cash Disbursements and Other Financing Uses	1,101,713	9,944	14,464
Fund Cash Balance July 1, 2001	<u>3,822,339</u>	<u>162,060</u>	<u>2,235</u>
Fund Cash Balance June 30, 2002	<u>\$4,924,052</u>	<u>\$172,004</u>	<u>\$16,699</u>

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

Fiduciary Fund Type	Total (Memorandum Only)
Expendable Trust	
	\$6,247,109
	51,274
\$1,636	384,411
635	212,311
	77,318
10,200	68,330
	4,981,639
	239,249
12,471	12,261,641
	4,682,542
	1,116,631
	315,929
	4,058
	473,273
	504,227
	135,374
	843,648
	333,747
	1,230,932
	736,789
12,352	202,751
	374,995
	160,444
12,352	11,115,340
119	1,146,301
	3,572
	(15,700)
	(19,219)
	11,286
	(20,061)
119	1,126,240
17,242	4,003,876
\$17,361	\$5,130,116

**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, 2002**

	Proprietary Fund Type
	Enterprise
Operating Receipts:	
Earnings on Investments	
Food Services	\$383,219
Extracurricular Activities	
Miscellaneous	
	383,219
Total Operating Receipts	383,219
Operating Disbursements:	
Personal Services - Salaries	218,283
Employees' Retirement and Insurance	65,753
Purchased Services	2,707
Supplies and Materials	202,609
Capital Outlay	1,280
Capital Outlay - Replacement	600
Other Objects	
	491,232
Total Operating Disbursements	491,232
Excess of Operating Receipts Over (Under) Operating Disbursements	(108,013)
Non-Operating Receipts:	
Earnings on Investments	1,323
Miscellaneous	
State Sources	3,267
Federal Sources	105,227
Refund of Prior Years Expenditures	
	109,817
Total Non-Operating Receipts	109,817
Excess of Receipts Over (Under) Disbursements Before Interfund Transfers	1,804
Operating Transfers In	
	1,804
Excess of Cash Receipts and Other Financing Receipts Over (Under) Cash Disbursements and Other Financing Disbursements	1,804
Fund balance July 1	50,734
Fund balance, June 30	\$52,538

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

Fiduciary Fund Types		
Nonexpendable Trust	Agency	Total (Memorandum Only)
\$10,707		\$10,707
		383,219
	\$86,195	86,195
2,374		2,374
<u>13,081</u>	<u>86,195</u>	<u>482,495</u>
		218,283
	10,606	76,359
		2,707
	83,732	286,341
		1,280
		600
8,164	9,886	18,050
<u>8,164</u>	<u>104,224</u>	<u>603,620</u>
4,917	(18,029)	(121,125)
	7,254	8,577
	381	381
		3,267
		105,227
	1,160	1,160
	<u>8,795</u>	<u>118,612</u>
4,917	(9,234)	(2,513)
	12,128	12,128
4,917	2,894	9,615
<u>234,798</u>	<u>59,603</u>	<u>345,135</u>
<u>\$239,715</u>	<u>\$62,497</u>	<u>\$354,750</u>

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**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**COMBINED STATEMENT OF RECEIPTS
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2002**

	Budget	Actual	Variance Favorable (Unfavorable)
Governmental Fund Types:			
General Fund	\$10,970,200	\$11,358,966	\$388,766
Special Revenue Funds	474,000	662,135	188,135
Capital Projects Funds	217,999	242,927	24,928
Proprietary Fund Type:			
Enterprise Funds	490,000	493,036	3,036
Fiduciary Fund Type:			
Trust and Agency Funds	163,000	132,670	(30,330)
Totals	\$12,315,199	\$12,889,734	\$574,535

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 YEAR ENDED JUNE 30, 2002**

	<u>Prior Year Carryover Appropriations</u>	<u>2002 Appropriations</u>
Governmental Fund Types:		
General Fund	\$199,757	\$10,270,650
Special Revenue Funds		
Capital Projects Funds	155,569	215,000
Proprietary Fund Type:		
Enterprise Funds		484,500
Fiduciary Fund Type:		
Trust and Agency Funds		
Totals	\$355,326	\$10,970,150

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

<u>Total</u>	<u>Actual 2002 Disbursements</u>	<u>Encumbrances Outstanding at 6/30/02</u>	<u>Total</u>	<u>Variance Favorable (Unfavorable)</u>
\$10,470,407	\$10,257,253	\$165,764	\$10,423,017	\$47,390
	652,191	6,578	658,769	(658,769)
370,569	228,463	9,761	238,224	132,345
484,500	491,232		491,232	(6,732)
	124,740	62	124,802	(124,802)
<u>\$11,325,476</u>	<u>\$11,753,879</u>	<u>\$182,165</u>	<u>\$11,936,044</u>	<u>(\$610,568)</u>

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**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002**

1. DESCRIPTION OF THE ENTITY

The Margarett Local School District (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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

Although required by Ohio Administrative Code § 117-2-03 (B) to prepare its annual financial report in accordance with generally accepted accounting principles, the District chooses to prepare its financial statements and notes in accordance with standards established by the Auditor of State for governmental entities that are not required to prepare annual financial reports in accordance with generally accepted accounting principles. 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, in accordance with the basis of accounting described in the preceding paragraph.

Failing to follow generally accepted accounting principles is a condition sufficient for the Ohio Department of Education to place the District in a Fiscal Caution Status. This status requires the District to submit a corrective action plan to the Department. The District has contracted with an accounting firm to convert the fiscal year 2003 financial statements to generally accepted accounting principles and the Ohio Department of Education has granted the District a waiver from being placed in fiscal caution.

B. Reporting Entity

The District's reporting entity has been defined in accordance with GASB Statement No. 14, The Financial Reporting Entity, effective for financial statements for periods beginning after December 15, 1992. A reporting entity is comprised of the primary government, component units, and other organizations that are included to insure that the financial statements of the District are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the District. For the District, this includes general operations, food service, and student related activities of the District. Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

support to, the organization or the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt, or the levying of taxes for the organization. The financial statements of the reporting entity include only those of the District (the primary government). The District has no component units. The following organizations are described due to their relationship to the District.

JOINTLY GOVERNED ORGANIZATIONS

Bay Area Council of Governments

The Bay Area Council of Governments (BACG) is a jointly governed organization. Members of the BACG consist of 26 school districts representing seven counties (Ottawa, Sandusky, Seneca, Erie, Huron, Wood, and Crawford). The BACG was formed for the purpose of purchasing goods and services at a lower cost. The item currently being purchased through the council of governments is natural gas. The only cost to the District is an administrative charge if it participates in purchasing through the BACG. The membership of BACG consists of the superintendent of each participating school district. The Board of Directors of the BACG consists of one elected representative of each county, the superintendent of the fiscal agent and two non-voting members (administrator and fiscal agent). Members of the Board serve staggered two-year terms. Financial information can be obtained by contacting the Erie Huron Ottawa ESC, which serves as fiscal agent, at 2900 South Columbus Avenue, Sandusky, Ohio 44870. The District paid \$100,395 to Bay Area Council of Governments during fiscal year 2002.

Northern Ohio Educational Computer Association

The Northern Ohio Educational Computer Association (NOECA) is a jointly governed organization, which is a computer consortium. NOECA is an association of 41 public school districts formed for the purpose of applying modern technology (with the aid of computer and other electronic equipment) to administrative and instructional functions among member school districts. The NOECA Board of Directors consists of two representatives from each county in which participating school districts are located, the chairman of each of the operating committees, and a representative from the fiscal agent. Financial information can be obtained from Betty Schweifert, who serves as Controller, 2900 South Columbus Avenue, Sandusky, Ohio 44870. The District paid \$97,077 to NOECA during fiscal year 2002.

The District is also a member of two insurance purchasing pools described in Note 7.

C. Fund Accounting

The District uses fund accounting to segregate cash and investments that are restricted as to use. The District classifies its funds into the following types:

1. General Fund

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

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

2. Special Revenue Funds

These funds are used to account for proceeds from specific sources (other than from trusts or for capital projects) that are restricted to expenditure for specific purposes.

3. Capital Project Funds

These funds are used to account for receipts that are restricted for the acquisition or construction of major capital projects.

4. Enterprise Funds

These funds account for operations that are similar to private business enterprises where management intends that the significant costs of providing certain goods or services will be recovered through 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.

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.

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.

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

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 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 2002 and do not include the unencumbered fund balances as of July 1, 2001. 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.

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.

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, 2002
(Continued)**

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

E. Cash and Investments

The investments in STAR Ohio (the State Treasurer's investment pool) is valued at amounts reported by the State Treasurer. Certificate of Deposit and U.S. Treasury Notes are valued at cost.

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or disbursements, respectively.

F. Property, Plant and Equipment

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements.

G. Accumulated Leave

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the District's basis of accounting.

3. EQUITY IN POOLED CASH AND INVESTMENTS

The District maintains a cash and investments pool used by all funds. The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of cash and investments at June 30 was as follows:

	<u>2002</u>
Demand deposits	\$143,258
Certificates of deposit	<u>2,210,189</u>
Total deposits	<u>2,353,447</u>
U.S. Treasury Notes	1,229,998
STAR Ohio	<u>1,901,421</u>
Total investments	<u>3,131,419</u>
Total deposits and investments	<u><u>\$5,484,866</u></u>

Deposits: Deposits are either (1) insured by the Federal Depository Insurance Corporation, (2) collateralized by securities specifically pledged by the financial institution to the District, or (3) collateralized by the financial institution's public entity deposit pool

Investments: U.S. Treasury Notes are held in book-entry form by the Federal Reserve, in the name of the District's financial institution. The financial institution maintains records identifying the District as owner of these securities. Investments in STAR Ohio are not evidenced by securities that exist in physical or book-entry form.

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

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 35 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 88 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 and Sandusky Counties. The County Auditors periodically advance 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.

Contribution rates are also prescribed by the Ohio Revised Code. For fiscal year 2002, 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, 2002.

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

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.

Contribution rates are also prescribed by the Ohio Revised Code. For fiscal year 2002, members of STRS contributed 9.3 percent of their wages to the STRS. The District contributed an amount equal to 14 percent of their wages. The District has paid all contributions required through June 30, 2002.

6. RISK MANAGEMENT

Commercial Insurance

The District has obtained commercial insurance for the following risks:

- Comprehensive property and general liability;
- Vehicles; and
- 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-Huron County Educational Service Center, 2900 South Columbus Avenue, Sandusky, Ohio 44870.

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

8. SCHOOL FUNDING DECISION

On September 6, 2001, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision identified aspects of the current plan that require modification if the plan is to be considered constitutional, including:

- A change in the school districts that are used as the basis for determining the base cost support amount. Any change in the amount of funds distributed to school districts as a result of this change must be retroactive to July 1, 2001, although a time line for distribution is not specified.
- Fully funding parity aid no later than the beginning of fiscal year 2004 rather than fiscal year 2006.

The Supreme Court relinquished jurisdiction over the case based on anticipated compliance with its order.

The State of Ohio, in a motion filed September 17, 2001, asked the Court to reconsider and clarify the parts of the decision changing the school districts that are used as the basis for determining the base cost support amount and the requirement that changes be made retroactive to July 1, 2001. In November 2001, the Court granted the request for reconsideration, but also ordered the parties to participate in a settlement conference with a court appointed mediator. On March 21, 2002, the mediator issued his final report indicating that the conference was unable to produce a settlement. The case is now under reconsideration by the Court.

The District is currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

9. COMPLIANCE

- A.** Contrary to Ohio law, as of June 30, 2002, the following funds had expenditures and encumbrances in excess of appropriations:

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

	<u>Appropriations</u>	<u>Expenditures</u>	<u>Excess</u>
Special Revenue Funds:			
Public School Support Fund 018		\$174,162	\$174,162
Athletic Fund 300		193,718	193,718
Professional Development Grant Fund 416		4,948	4,948
EMIS Fund 432		7,757	7,757
Network Grant Fund 451		5,987	5,987
School Net Professional Development Fund 452		455	455
Ohio Reads Grant Fund 459		4,058	4,058
Summer School Intervention Fund 460		5,673	5,673
Safe School Help Line Fund 499		1,352	1,352
Professional Development Fund 514		7,337	7,337
Title VI-B Fund 516		120,105	120,105
Title 1 – Fund 572		110,693	110,693
Chapter 2 Fund 573		16,551	16,551
Drug Free School Fund 584		5,973	5,973
Capital Project School Net Fund 450	\$5,940	7,729	1,789
Enterprise/ Food Service Fund 006	484,500	491,232	6,732
Expendable Trust Scholarship Fund 007		12,352	12,352
Nonexpendable Trust Fund 008		8,164	8,164

- B.** Contrary to Ohio law, during the year ended June 30, 2002, the District did not consistently certify the availability of funds prior to a commitment being incurred.
- C.** Contrary to Ohio law, as of June 30, 2002, the following funds had deficit fund balances:

<u>Fund</u>	<u>Deficit Balance</u>
Eisenhower Professional Development Fund 514	\$724
Title VI-B Fund 516	649
Title I Fund 572	1,048
Safe and Drug Free Schools Fund 584	4,659
Permanent Improvement Fund 003	7,484

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. The amount set-aside may be reduced by offset credits, which are monies received and restricted for the same specific purpose. Amounts not spent by year-end or reduced by offset credits must be held in cash at year-end and carried forward to be used for the same purposes in future years.

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

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

	<u>Textbooks</u>	<u>Capital Maintenance</u>	<u>Budget Stabilization</u>
Set-aside Cash Balance as of July 01, 2001	(\$470,123)		\$51,434
Current Year Set-aside Requirement	294,639	\$294,639	
Current Year Offsets		(199,429)	
Qualifying Disbursements	(511,741)	(465,900)	
Total	<u>(\$687,225)</u>	<u>(\$370,690)</u>	<u>\$51,434</u>
Cash Balance Carried Forward to FY 2003	<u>(\$687,225)</u>		<u>\$51,434</u>
Total Restricted Cash			<u>\$51,434</u>

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.

Senate Bill (S.B.) 345, 123rd General Assembly eliminated the requirement for the Budget Stabilization set-aside. S.B. 345 places special restrictions of the use of Bureau of Workers Compensation (BWC) Rebate money remaining in the Budget Stabilization as of April 10, 2001. \$51,434 represents the BWC portion at June 30, 2002.

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**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2002**

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Federal CFDA Number	Grant Number
U.S. DEPARTMENT OF AGRICULTURE		
<i>Passed Through Ohio Department of Education:</i>		
<u>Nutrition Cluster:</u>		
National School Lunch Program	10.555	046805-LLP4-2002 046805-LLP4-2001 046805-LLP1-2001
Food Distribution Program	10.550	-
Total U.S. Department of Agriculture - Nutrition Cluster		
U.S. DEPARTMENT OF EDUCATION		
<i>Passed Through Ohio Department of Education:</i>		
<u>Special Education Cluster:</u>		
Special Education Grants to States (IDEA Part B)	84.027	046805-6B-SF-02P 046805-6B-SF-01P
Special Education - Preschool Grant Total Special Education Cluster	84.173	046805-PG-S1-02P
Grants to Local Educational Agencies (ESEA Title I)	84.010	046805-C1-S1-02 046805-C1-S1-01
Total Title I		
Safe and Drug-Free Schools and Communities State Grant	84.186	046805-DR-S1-02
Eisenhower Professional Development State Grant	84.281	046805-MS-S1-02
Innovative Educational Program Strategies	84.298	046805-C2-S1-02 046805-C2-S1-01 046805-C2-S1-00
Total Innovative Education Program Strategies		
Class Size Reduction	84.340	046805-CR-S1-02
Total U.S. Department of Education		
Total Federal Financial Assistance		

The accompanying notes are an integral part of this schedule.

<u>Receipts</u>	<u>Non-Cash Receipts</u>	<u>Disbursements</u>	<u>Non-Cash Disbursements</u>
\$79,193		\$79,193	
17,722		17,722	
8,312		8,312	
	\$47,182		\$42,582
<u>105,227</u>	<u>47,182</u>	<u>105,227</u>	<u>42,582</u>
112,661		113,209	
8,207		6,896	
<u>120,868</u>		<u>120,105</u>	
79,596		76,351	
6,954		34,342	
<u>86,550</u>		<u>110,693</u>	
1,314		5,973	
6,603		7,337	
2,283		902	
6,253		6,934	
5,514		7,005	
<u>14,050</u>		<u>14,841</u>	
9,864			
<u>239,249</u>		<u>258,949</u>	
<u>\$344,476</u>	<u>\$47,182</u>	<u>\$364,176</u>	<u>\$42,582</u>

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2002**

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, 2002, the District had \$15,312 in food commodities inventory.



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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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 44824-9278

To the Board of Education:

We have audited the financial statements of the Margaretta Local School District (the District) as of and for the year ended June 30, 2002, and have issued our report thereon dated November 14, 2002, in which we noted that the District has prepared its annual financial report on a basis of accounting other than that prescribed by Ohio Administrative Code Section 117-2-03 (B). We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2002-10522-001 through 2002-10522-003. We also noted certain immaterial instances of noncompliance that we have reported to management of the District in a separate letter dated November 14, 2002.

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 November 14, 2002.

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.

A handwritten signature in black ink, appearing to read "Jim Petro". The signature is stylized with a large, looping initial "J" and a cursive "Petro".

Jim Petro
Auditor of State

November 14, 2002



STATE OF OHIO
OFFICE OF THE AUDITOR

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

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

To the Board of Education:

Compliance

We have audited the compliance of the Margaretta Local School District (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 its major federal program for the year ended June 30, 2002. The District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2002.

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.

A handwritten signature in black ink, appearing to read "Jim Petro". The signature is stylized with a large, looping initial "J" and a cursive "Petro".

Jim Petro
Auditor of State

November 14, 2002

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2002**

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):	<u>Special Education Cluster:</u> Special Education Grants to States CFDA #84.027 Special Education Preschool Grant CFDA #84.173
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

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

FINDING NUMBER 2002-10522-001

Noncompliance Citation

Ohio Administrative Code § 117-2-03 (B) 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 the fiscal year ending June 30, 2002, in accordance with standards established by the Auditor of State for governmental entities not required to prepare annual reports in accordance with generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. The District can be fined and various other administrative remedies may be taken against the District.

**FINDING NUMBER 2002-10522-001
 (Continued)**

Failing to follow generally accepted accounting principles is a condition sufficient for the Ohio Department of Education to place the District in a Fiscal Caution Status. This status requires the District to submit a corrective action plan to the Department. The District has contracted with a private firm to convert the fiscal year 2003 report to GAAP and the Ohio Department of Education has granted the District a waiver from being placed in fiscal caution.

FINDING NUMBER 2002-10522-002

Noncompliance Citation

Ohio Revised Code § 5705.41(B) prohibits a subdivision from making an expenditure unless it has been lawfully appropriated. The following funds had expenditures in excess of appropriations for the fiscal year ended June 30, 2002:

	<u>Appropriations</u>	<u>Expenditures</u>	<u>Excess</u>
Special Revenue Funds:			
Public School Support Fund 018		\$174,162	\$174,162
Athletic Fund 300		193,718	193,718
Professional Development Grant Fund 416		4,948	4,948
EMIS Fund 432		7,757	7,757
Network Grant Fund 451		5,987	5,987
School Net Professional Development Fund 452		455	455
Ohio Reads Grant Fund 459		4,058	4,058
Summer School Intervention Fund 460		5,673	5,673
Safe School Help Line Fund 499		1,352	1,352
Professional Development Fund 514		7,337	7,337
Title VI-B Fund 516		120,105	120,105
Title 1 – Fund 572		110,693	110,693
Chapter 2 Fund 573		16,551	16,551
Drug Free School Fund 584		5,973	5,973
Capital Project School Net Fund 450	\$5,940	7,729	1,789
Enterprise/ Food Service Fund 006	484,500	491,232	6,732
Expendable Trust Scholarship Fund 007		12,352	12,352
Nonexpendable Trust Fund 008		8,164	8,164

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

FINDING NUMBER 2002-10522-003

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, both at the time of the contract or order and at the time of the certificate, 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 two 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.

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2002**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2001-10522-001	OAC § 117-2-03(B) Failure to file GAAP report.	No	The District has contracted to convert to GAAP for FY2003. Reissued as finding 2002-10522-001.
2001-10522-002	ORC § 5705.41(B) Expenditures exceeding appropriations	No	Not Corrected. Reissued as finding 2002-10522-002.
2001-10522-003	ORC § 5705.41(D) Failure of fiscal officer to certify expenditures.	No	Not corrected. Reissued as finding 2002-10522-003.



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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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 31, 2002**