

**MARGARETTA LOCAL SCHOOL DISTRICT  
ERIE COUNTY, OHIO**

**BASIC FINANCIAL STATEMENTS**

*FOR THE FISCAL YEAR ENDED  
JUNE 30, 2011*

**JUDE HAMMOND, TREASURER**

**MARGARETTA LOCAL SCHOOL DISTRICT  
ERIE COUNTY, OHIO**

**BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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**Julian & Grube, Inc.**  
*Serving Ohio Local Governments*

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Accountant's Compilation Report

To the Margaretta Local School District Board of Education  
Castalia, Ohio

We have compiled the basic financial statements, as listed in the table of contents, for the Margaretta Local School District (the "District"), as of and for the fiscal year ended June 30, 2011. We have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or provide any assurance about whether the financial statements are in accordance with accounting principles generally accepted in the United States of America.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the compilation in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The objective of a compilation is to assist management in presenting financial information in the form of financial statements without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statements.

The management's discussion and analysis, on pages 3 through 12, is presented for purposes of additional analysis. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting and for placing the basic financial statements in an appropriate operational, economic, or historical context. The supplementary information has been compiled from information that is the representation of management. We have not audited or reviewed the supplementary information and accordingly, we do not express an opinion or provide any assurance on such supplementary information.

*Julian & Grube, Inc.*

November 25, 2011

**MARGARETTA LOCAL SCHOOL DISTRICT  
ERIE COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
(SEE ACCOUNTANT'S COMPILATION REPORT)

The management's discussion and analysis of the Margaretta Local School District's ("the District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2011. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

**Financial Highlights**

Key financial highlights for fiscal year 2011 are as follows:

- In total, net assets of governmental activities decreased \$471,519 which represents a 13.04% decrease from 2010.
- General revenues accounted for \$10,625,980 in revenue or 78.50% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$2,909,973 or 21.50% of total revenues of \$13,535,953.
- The District had \$14,007,472 in expenses related to governmental activities; only \$2,909,973 of these expenses were offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$10,625,980 were not adequate to provide for these programs.
- The District's only major governmental fund is the general fund. The general fund had \$12,587,330 in revenues and \$11,825,478 in expenditures and other financing uses. During fiscal year 2011, the general fund's fund balance increased \$761,852 from a restated fund deficit of \$448,634 to a fund balance of \$313,218.

**Using the Basic Financial Statements (BFS)**

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

The *statement of net assets* and *statement of activities* provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds with all other nonmajor funds presented in total in one column. In the case of the District, the general fund is by far the most significant fund and the only governmental fund reported as major fund.

**MARGARETTA LOCAL SCHOOL DISTRICT  
ERIE COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
(SEE ACCOUNTANT'S COMPILATION REPORT)

**Reporting the District as a Whole**

***Statement of Net Assets and the Statement of Activities***

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2011?" The statement of net assets and the statement of activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

In the statement of net assets and the statement of activities, the governmental activities include the District's programs and services, including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities, and food service operations.

The District's statement of net assets and statement of activities can be found on pages 13 and 14 of this report.

**Reporting the District's Most Significant Funds**

***Fund Financial Statements***

The analysis of the District's major governmental funds begins on page 9. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's major governmental fund is the general fund.

***Governmental Funds***

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* than can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the statement of net assets and the statement of activities) and governmental *funds* is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 15-19 of this report.

***Reporting the District's Fiduciary Responsibilities***

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

**MARGARETTA LOCAL SCHOOL DISTRICT  
ERIE COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
(SEE ACCOUNTANT'S COMPILATION REPORT)

***Notes to the Basic Financial Statements***

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 22-50 of this report.

**The District as a Whole**

The statement of net assets provides the perspective of the District as a whole. The table below provides a summary of the District's net assets at June 30, 2011 and June 30, 2010.

	<b>Net Assets</b>	
	Governmental Activities 2011	Governmental Activities 2010
<b><u>Assets</u></b>		
Current and other assets	\$ 7,111,546	\$ 7,672,358
Capital assets, net	<u>5,520,302</u>	<u>5,458,328</u>
Total assets	<u>12,631,848</u>	<u>13,130,686</u>
<b><u>Liabilities</u></b>		
Current liabilities	6,165,159	6,124,579
Long-term liabilities	<u>3,321,288</u>	<u>3,389,187</u>
Total liabilities	<u>9,486,447</u>	<u>9,513,766</u>
<b><u>Net Assets</u></b>		
Invested in capital assets, net or related debt	3,035,302	2,880,328
Restricted	343,286	431,708
Unrestricted (deficit)	<u>(233,187)</u>	<u>304,884</u>
Total net assets	<u>\$ 3,145,401</u>	<u>\$ 3,616,920</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2011, the District's assets exceeded liabilities by \$3,145,401

At year-end, capital assets represented 43.70% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2011, were \$3,035,302. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

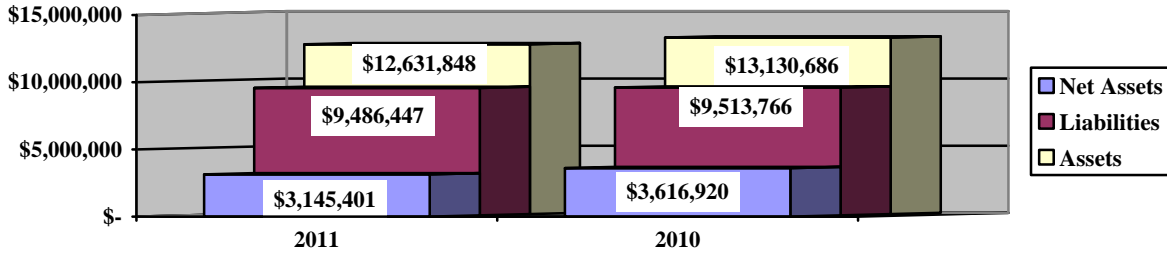
A portion of the District's net assets, \$343,286, represents resources that are subject to external restriction on how they may be used. The remaining balance of net assets is a deficit unrestricted net assets of \$233,187.

**MARGARETTA LOCAL SCHOOL DISTRICT  
ERIE COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
(SEE ACCOUNTANT'S COMPILATION REPORT)

The graph below illustrates the governmental activities assets, liabilities and net assets at June 30, 2011 and June 30, 2010:

**Governmental Activities**



The table below shows the change in net assets for fiscal years 2011 and 2010.

**Change in Net Assets**

	Governmental Activities 2011	Governmental Activities 2010
<b><u>Revenues</u></b>		
Program revenues:		
Charges for services and sales	\$ 1,270,752	\$ 1,212,038
Operating grants and contributions	1,639,221	1,440,379
General revenues:		
Property taxes	4,373,557	4,548,435
Grants and entitlements	6,223,510	6,338,070
Investment earnings	944	6,807
Other	27,969	45,511
Total revenues	<u>\$ 13,535,953</u>	<u>\$ 13,591,240</u>

**MARGARETTA LOCAL SCHOOL DISTRICT  
ERIE COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
(SEE ACCOUNTANT'S COMPILATION REPORT)

**Change in Net Assets**

	Governmental Activities <u>2011</u>	Governmental Activities <u>2010</u>
<b><u>Expenses</u></b>		
Program expenses:		
Instruction:		
Regular	\$ 4,974,956	\$ 5,259,311
Special	1,419,432	1,459,784
Vocational	262,138	266,087
Other	598,776	22,938
Support services:		
Pupil	711,058	755,121
Instructional staff	724,387	711,639
Board of education	173,526	179,904
Administration	994,894	950,178
Fiscal	410,990	405,832
Operations and maintenance	1,199,741	1,212,716
Pupil transportation	1,134,387	1,107,246
Central	53,569	68,802
Operation of non-instructional services:		
Other non-instructional services	135,748	168,275
Food service operations	614,465	602,192
Extracurricular activities	492,662	475,393
Interest and fiscal charges	<u>106,743</u>	<u>110,203</u>
Total expenses	<u>14,007,472</u>	<u>13,755,621</u>
Change in net assets	(471,519)	(164,381)
Net assets at beginning of year	<u>3,616,920</u>	<u>3,781,301</u>
Net assets at end of year	<u>\$ 3,145,401</u>	<u>\$ 3,616,920</u>

**Governmental Activities**

Net assets of the District's governmental activities decreased \$471,519. Total governmental expenses of \$14,007,472 were offset by program revenues of \$2,909,973 and general revenues of \$10,625,980. Program revenues supported 20.77% of the total governmental expenses.

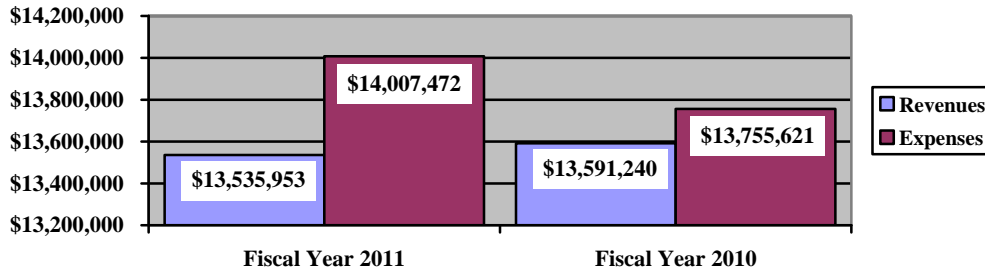
The primary sources of revenue for governmental activities are derived from property taxes and grants and entitlements. These two revenue sources represent 78.29% of total governmental revenue. Real estate property is reappraised every six years.

**MARGARETTA LOCAL SCHOOL DISTRICT  
ERIE COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
(SEE ACCOUNTANT'S COMPILATION REPORT)

The graph below presents the District's governmental activities revenue and expenses for fiscal years 2011 and 2010.

**Governmental Activities - Revenues and Expenses**



The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services for fiscal years 2011 and 2010. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements.

**Governmental Activities**

	Total Cost of Services 2011	Net Cost of Services 2011	Total Cost of Services 2010	Net Cost of Services 2010
<b>Program expenses</b>				
Instruction:				
Regular	\$ 4,974,956	\$ 3,848,424	\$ 5,259,311	\$ 4,427,899
Special	1,419,432	962,087	1,459,784	1,021,812
Vocational	262,138	235,883	266,087	240,027
Other	598,776	598,776	22,938	22,938
Support services:				
Pupil	711,058	490,240	755,121	521,425
Instructional staff	724,387	683,689	711,639	633,240
Board of education	173,526	173,526	179,904	179,904
Administration	994,894	987,894	950,178	943,109
Fiscal	410,990	410,990	405,832	405,832
Operations and maintenance	1,199,741	1,157,221	1,212,716	1,163,433
Pupil transportation	1,134,387	1,093,326	1,107,246	1,060,003
Central	53,569	53,569	68,802	68,802
Operations of non-instructional services				
Non-instructional services	135,748	9,525	168,275	53,172
Food service operations	614,465	13,927	602,192	(14,253)
Extracurricular activities	492,662	271,679	475,393	265,658
Interest and fiscal charges	106,743	106,743	110,203	110,203
<b>Total expenses</b>	<b>\$ 14,007,472</b>	<b>\$ 11,097,499</b>	<b>\$ 13,755,621</b>	<b>\$ 11,103,204</b>

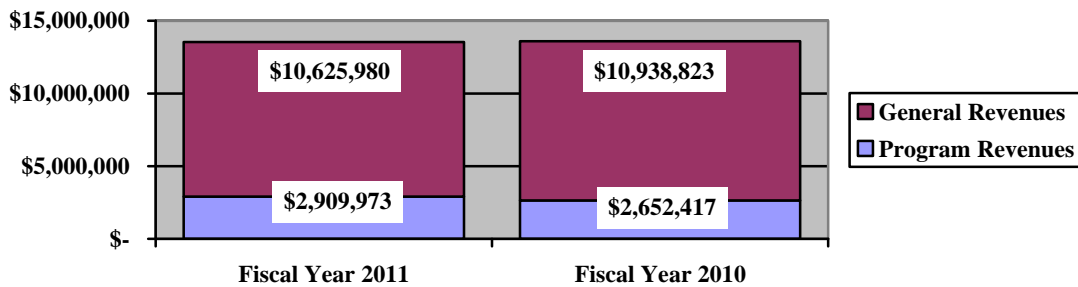
**MARGARETTA LOCAL SCHOOL DISTRICT  
ERIE COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
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(SEE ACCOUNTANT'S COMPILATION REPORT)

The dependence upon tax and other general revenues for governmental activities is apparent, 77.81% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 79.23%. The District's taxpayers and grants and entitlements not restricted to specific programs, as a whole, are by far the primary support for District's students.

The graph below presents the District's governmental activities revenue for fiscal years 2011 and 2010.

**Governmental Activities - General and Program Revenues**



**The District's Funds**

The District's governmental funds (as presented on the balance sheet on page 15) reported a combined fund balance of \$207,717, which is more than last year's deficit of \$367,632. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2011 and June 30, 2010. The District restated June 30, 2010 fund balances as described Note 3.B.

	Fund Balance (Deficit) <u>June 30, 2011</u>	Restated Fund Balance (Deficit) <u>June 30, 2010</u>	Increase/ Decrease
General	\$ 313,218	\$ (448,634)	\$ 761,852
Other Governmental	<u>(105,501)</u>	<u>81,002</u>	<u>(186,503)</u>
Total	<u>\$ 207,717</u>	<u>\$ (367,632)</u>	<u>\$ 575,349</u>

**General Fund**

The District's general fund balance increased \$761,852 from a fund deficit of \$448,634 to a fund balance of \$313,218. This increase can be attributed to the increase in tax revenue from the prior year. See the table on the following page for a more detailed look at the general fund.

**MARGARETTA LOCAL SCHOOL DISTRICT  
ERIE COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
(SEE ACCOUNTANT'S COMPILATION REPORT)

The table that follows assists in illustrating the financial activities and fund balance of the general fund.

	2011 <u>Amount</u>	Restated 2010 <u>Amount</u>	Increase/ (Decrease)	Percentage <u>Change</u>
<b><u>Revenues</u></b>				
Taxes	\$ 5,361,409	\$ 4,350,768	\$ 1,010,641	23.23 %
Tuition	509,324	448,021	61,303	13.68 %
Earnings on investments	944	8,428	(7,484)	(88.80) %
Classroom materials and fees	45,717	48,041	(2,324)	(4.84) %
Intergovernmental	6,451,106	6,385,955	65,151	1.02 %
Other revenues	<u>218,830</u>	<u>228,340</u>	<u>(9,510)</u>	(4.16) %
Total	<u>\$ 12,587,330</u>	<u>\$ 11,469,553</u>	<u>\$ 1,117,777</u>	9.75 %
<b><u>Expenditures</u></b>				
Instruction	\$ 6,113,983	\$ 6,254,062	\$ (140,079)	(2.24) %
Support services	4,945,555	4,892,135	53,420	1.09 %
Operation of non-instructional services	135,403	167,936	(32,533)	(19.37) %
Extracurricular activities	258,052	261,557	(3,505)	(1.34) %
Debt service	<u>199,901</u>	<u>199,770</u>	<u>131</u>	0.07 %
Total	<u>\$ 11,652,894</u>	<u>\$ 11,775,460</u>	<u>\$ (122,566)</u>	(1.04) %

Overall revenues of the general fund increased \$1,117,777 or 9.75%. The most significant increase was in the area of taxes. Tax revenue increased \$1,010,641 or 23.23% due to passage of an emergency levy in August 2010 of which collections began in fiscal year 2011 as well as the amount of property taxes available as an advance to the District at year-end. Earnings on investments decreased \$7,484 or 88.80%. This decrease can be attributed to declining interest rates during fiscal year 2011 and is deemed immaterial to the total dollar amount of revenues.

Overall expenditures of the general fund decreased \$122,566 or 1.04%. The most significant decreases were in the areas of instruction and operation of non-instructional services. Instruction and operation of non-instructional services decreased \$140,079 and \$32,533, respectively. These decreases can mainly be attributed the District's tight control on wages and benefits as well as its efforts to control general operating costs.

***General Fund Budgeting Highlights***

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

During the course of fiscal year 2011, the District amended its general fund budgeted revenues. For the general fund, final budgeted revenues were \$12,088,639, which was higher than the original budgeted revenues of \$11,902,639. Actual revenues for fiscal year 2011 were \$12,199,918. This represents a \$111,279 increase from final budgeted revenues.

General fund original appropriations (appropriated expenditures plus other financing uses) of \$11,935,009 were increased to \$12,110,009 in the final budget. The actual budget basis expenditures and other financing uses for fiscal year 2011 totaled \$12,032,844, which was \$77,165 lower than the final budget appropriations.

**MARGARETTA LOCAL SCHOOL DISTRICT  
ERIE COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
(SEE ACCOUNTANT'S COMPILATION REPORT)

**Capital Assets**

At the end of fiscal year 2011, the District had \$5,520,302 invested in land, land improvements, buildings and improvements, furniture and equipment, and vehicles. This entire amount is reported in governmental activities. The following table shows capital assets, net of accumulated depreciation, at June 30, 2011 and June 30, 2010:

	<b>Capital Assets at June 30</b>	
	<b>(Net of Depreciation)</b>	
	<u>Governmental Activities</u>	
	<u>2011</u>	<u>2010</u>
Land	\$ 103,182	\$ 103,182
Land improvements	213,715	236,836
Buildings and improvements	4,561,817	4,494,622
Furniture and equipment	208,477	183,955
Vehicles	<u>433,111</u>	<u>439,733</u>
Total	<u>\$ 5,520,302</u>	<u>\$ 5,458,328</u>

The overall increase in capital assets of \$61,974 is primarily due to total capital outlays of \$342,006 exceeding depreciation expense of \$258,908 and disposals of \$21,124 (net of accumulated depreciation) for fiscal year 2011.

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

***Debt Administration***

At June 30, 2011, the District had \$2,485,000 in lease-purchase obligations. Of this amount, \$96,000 is due within one year and \$2,389,000 is due within greater than one year. The following table summarizes the debt outstanding at June 30, 2011 and June 30, 2010.

	Governmental	Governmental
	Activities	Activities
	<u>2011</u>	<u>2010</u>
Lease-purchase agreement	\$ <u>2,485,000</u>	\$ <u>2,578,000</u>
Total	<u>\$ 2,485,000</u>	<u>\$ 2,578,000</u>

See Note 10 to the basic financial statements for additional information on the District's debt administration.

**MARGARETTA LOCAL SCHOOL DISTRICT  
ERIE COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
(SEE ACCOUNTANT'S COMPILATION REPORT)

**Current Financial Related Activities**

Fiscal year 2011 began with the voters approving a \$1,205,950 Emergency Property Tax Levy in August, 2010. The revenue generated from the additional levy proceeds were booked in the second half of the fiscal year with tax collections in the first half of calendar year 2011. Fiscal year 2011 ended with the approval of the State's Biennial Budget bill which eliminated approximately \$300,000 in Federal Stimulus funding and the accelerated phase-out of the reimbursement from the loss of local Tangible Personal Property taxes resulting from the effects of House Bill 66. The loss of federal funding and the accelerated phase-out reduced non-local funding by approximately \$1.5 million over two fiscal years (2011 and 2012). The Board of Education did attempt to convert a 7.75 mill Current Expense levy into a 4.87 mill Conversion levy in November, 2010. The district is the only school district to attempt a conversion levy. The levy failed with only 30% of the voters approving the levy. The Board then attempted to renew the 7.75 current expense levy, which generates approximately \$1.2 million in local taxes and intergovernmental revenue annually. The renewal levy failed in May, 2011. However, the renewal levy was approved in August, 2011 to provide stability to the district through the next two fiscal years.

The District continues to look at ways to reduce the operational expense while maintaining educational success. The District received an excellent rating for academic performance for the 2010-11 School Year. In Fiscal year 2012, the District has sponsored a Conversion School intended to help High School aged students who are credit deficient and at risk of not graduating, achieve a diploma. The Townsend Community School will open in Fiscal Year 2012. In addition to developing an educational process designed for the non-traditional student to obtain a high school diploma, the District will receive 3% of the State Aid paid to the Conversion School, will lease a portion of the District property and charge Townsend Community School for shared services. The anticipated revenue for this process is estimated to be in excess of \$50,000 per year beginning in 2012.

The District has a Permanent Improvement levy that is expiring in tax year 2011, with the final year of tax collection to be in calendar year 2012. The Board is considering the option to renew the Permanent Improvement levy for a continuing period of time. Currently the term of the levy is five years. If the voters approve the change in period, the Board is considering borrowing against the levy proceeds to make improvements at the High School with the focus on science labs.

The overall financial position of the District has stabilized with the approval of the \$1.2 million Emergency Levy. The District received approximately \$1.7 million in Tangible Personal Property tax reimbursement which will be reduced to less than \$1.5 million in Fiscal Year 2012 and then by another \$300,000 in Fiscal Year 2013. This will leave approximately \$1.2 million remaining as we approach the next State Budget bill. The uncertainty of the State's funding in Fiscal Years 2014 and 2015 creates an uncertain future for the District. This uncertainty has become the norm rather than the exception when it comes to financial stability. Regardless of the outcome of the future budget bills and other external factors, the Board and staff are committed to providing the best educational system for the children of the district within the financial parameters the community and the state will establish.

**Contacting the District's Financial Management**

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Mr. Jude Hammond, Treasurer, Margarett Local School District, 305 S. Washington Street, Castalia, Ohio 44824.

**BASIC  
FINANCIAL STATEMENTS**

**MARGARETTA LOCAL SCHOOL DISTRICT  
ERIE COUNTY, OHIO**

STATEMENT OF NET ASSETS  
JUNE 30, 2011  
(SEE ACCOUNTANT'S COMPILATION REPORT)

	<b>Governmental Activities</b>
<b>Assets:</b>	
Equity in pooled cash and cash equivalents. . . . .	\$ 844,979
Receivables:	
Taxes . . . . .	5,905,231
Intergovernmental . . . . .	354,511
Materials and supplies inventory. . . . .	6,825
Capital assets:	
Land . . . . .	103,182
Depreciable capital assets, net. . . . .	5,417,120
Capital assets, net . . . . .	5,520,302
 Total assets. . . . .	 12,631,848
<b>Liabilities:</b>	
Accounts payable. . . . .	131,564
Accrued wages and benefits . . . . .	1,214,042
Pension obligation payable. . . . .	330,936
Intergovernmental payable . . . . .	48,335
Unearned revenue . . . . .	4,432,081
Accrued interest payable . . . . .	8,201
Long-term liabilities:	
Due within one year. . . . .	155,967
Due in more than one year. . . . .	3,165,321
 Total liabilities . . . . .	 9,486,447
<b>Net Assets:</b>	
Invested in capital assets, net of related debt. . . . .	3,035,302
Restricted for:	
Capital projects . . . . .	82,841
Locally funded programs . . . . .	705
State funded programs. . . . .	5,443
Federally funded programs . . . . .	188,226
Student activities . . . . .	66,071
Unrestricted (deficit) . . . . .	(233,187)
 Total net assets . . . . .	 \$ 3,145,401

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MARGARETTA LOCAL SCHOOL DISTRICT  
ERIE COUNTY, OHIO**

STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
(SEE ACCOUNTANT'S COMPILATION REPORT)

		<b>Program Revenues</b>		<b>Net (Expense) Revenue and Changes in Net Assets</b>
	<b>Expenses</b>	<b>Charges for Services and Sales</b>	<b>Operating Grants and Contributions</b>	<b>Governmental Activities</b>
<b>Governmental activities:</b>				
Instruction:				
Regular . . . . .	\$ 4,974,956	\$ 555,041	\$ 571,491	\$ (3,848,424)
Special . . . . .	1,419,432	-	457,345	(962,087)
Vocational . . . . .	262,138	-	26,255	(235,883)
Other . . . . .	598,776	-	-	(598,776)
Support services:				
Pupil . . . . .	711,058	-	220,818	(490,240)
Instructional staff . . . . .	724,387	-	40,698	(683,689)
Board of education . . . . .	173,526	-	-	(173,526)
Administration . . . . .	994,894	-	7,000	(987,894)
Fiscal . . . . .	410,990	-	-	(410,990)
Operations and maintenance . . . . .	1,199,741	42,520	-	(1,157,221)
Pupil transportation . . . . .	1,134,387	-	41,061	(1,093,326)
Central . . . . .	53,569	-	-	(53,569)
Operation of non-instructional services:				
Other non-instructional services . . . . .	135,748	126,223	-	(9,525)
Food service operations . . . . .	614,465	325,985	274,553	(13,927)
Extracurricular activities . . . . .	492,662	220,983	-	(271,679)
Interest and fiscal charges . . . . .	106,743	-	-	(106,743)
Total governmental activities . . . . .	\$ 14,007,472	\$ 1,270,752	\$ 1,639,221	(11,097,499)
<b>General Revenues:</b>				
Property taxes levied for:				
General purposes . . . . .				4,245,466
Capital outlay . . . . .				128,091
Grants and entitlements not restricted to specific programs . . . . .				6,223,510
Investment earnings . . . . .				944
Miscellaneous . . . . .				27,969
Total general revenues . . . . .				10,625,980
Change in net assets . . . . .				(471,519)
<b>Net assets at beginning of year . . . . .</b>				<b>3,616,920</b>
<b>Net assets at end of year . . . . .</b>				<b>\$ 3,145,401</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MARGARETTA LOCAL SCHOOL DISTRICT  
ERIE COUNTY, OHIO**

BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2011  
(SEE ACCOUNTANT'S COMPILATION REPORT)

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>			
Equity in pooled cash and cash equivalents. . . . .	\$ 532,987	\$ 311,992	\$ 844,979
Receivables:			
Taxes. . . . .	5,741,993	163,238	5,905,231
Intergovernmental. . . . .	-	354,511	354,511
Materials and supplies inventory. . . . .	-	6,825	6,825
Due from other funds . . . . .	118,978	-	118,978
Advances to other funds. . . . .	50,000	-	50,000
Total assets . . . . .	<u>\$ 6,443,958</u>	<u>\$ 836,566</u>	<u>\$ 7,280,524</u>
<b>Liabilities:</b>			
Accounts payable . . . . .	\$ 78,411	\$ 53,153	\$ 131,564
Accrued wages and benefits. . . . .	1,017,143	196,899	1,214,042
Intergovernmental payable . . . . .	41,763	6,572	48,335
Unearned revenue. . . . .	4,309,824	122,257	4,432,081
Deferred revenue . . . . .	413,215	333,656	746,871
Pension obligation payable . . . . .	270,384	60,552	330,936
Due to other funds . . . . .	-	118,978	118,978
Advance from other funds . . . . .	-	50,000	50,000
Total liabilities. . . . .	<u>6,130,740</u>	<u>942,067</u>	<u>7,072,807</u>
<b>Fund Balances:</b>			
Nonspendable:			
Materials and supplies inventory. . . . .	-	6,825	6,825
Long-term loans. . . . .	50,000	-	50,000
Restricted:			
Capital improvements . . . . .	-	71,053	71,053
Food service operations . . . . .	-	2,149	2,149
Special education . . . . .	-	2,876	2,876
Extracurricular. . . . .	-	66,071	66,071
Other purposes. . . . .	-	84,442	84,442
Committed:			
Student and staff support . . . . .	39,115	-	39,115
Assigned:			
Student instruction . . . . .	12,761	-	12,761
Student and staff support. . . . .	66,647	-	66,647
Unassigned (deficit). . . . .	144,695	(338,917)	(194,222)
Total fund balances . . . . .	<u>313,218</u>	<u>(105,501)</u>	<u>207,717</u>
Total liabilities and fund balances . . . . .	<u>\$ 6,443,958</u>	<u>\$ 836,566</u>	<u>\$ 7,280,524</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MARGARETTA LOCAL SCHOOL DISTRICT  
ERIE COUNTY, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET ASSETS OF GOVERNMENTAL ACTIVITIES  
JUNE 30, 2011  
(SEE ACCOUNTANT'S COMPILATION REPORT)

<b>Total governmental fund balances</b>		\$	207,717
 <i>Amounts reported for governmental activities on the statement of net assets are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			5,520,302
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Taxes receivable	\$	425,003	
Intergovernmental receivable		321,868	
Total		746,871	746,871
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.			(8,201)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.			
Lease-purchase agreement		2,485,000	
Compensated absences payable		836,288	
Total		(3,321,288)	(3,321,288)
<b>Net assets of governmental activities</b>		\$	3,145,401

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MARGARETTA LOCAL SCHOOL DISTRICT  
ERIE COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
(SEE ACCOUNTANT'S COMPILATION REPORT)

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>			
From local sources:			
Taxes . . . . .	\$ 5,361,409	\$ 160,628	\$ 5,522,037
Tuition . . . . .	509,324	-	509,324
Earnings on investments . . . . .	944	-	944
Charges for services . . . . .	-	325,985	325,985
Extracurricular . . . . .	126,223	198,865	325,088
Classroom materials and fees . . . . .	45,717	-	45,717
Rental income . . . . .	42,520	-	42,520
Contract services . . . . .	22,118	-	22,118
Other local revenues . . . . .	27,969	-	27,969
Intergovernmental - state . . . . .	6,417,523	147,143	6,564,666
Intergovernmental - federal . . . . .	33,583	1,194,421	1,228,004
Total revenues . . . . .	<u>12,587,330</u>	<u>2,027,042</u>	<u>14,614,372</u>
<b>Expenditures:</b>			
Current:			
Instruction:			
Regular . . . . .	4,275,577	524,433	4,800,010
Special . . . . .	977,492	424,582	1,402,074
Vocational . . . . .	262,138	-	262,138
Other . . . . .	598,776	-	598,776
Support services:			
Pupil . . . . .	499,431	211,623	711,054
Instructional staff . . . . .	627,479	95,403	722,882
Board of education . . . . .	172,841	685	173,526
Administration . . . . .	978,342	13,601	991,943
Fiscal . . . . .	404,341	2,074	406,415
Operations and maintenance . . . . .	1,237,036	10,891	1,247,927
Pupil transportation . . . . .	972,522	26,100	998,622
Central . . . . .	53,563	-	53,563
Operation of non-instructional services:			
Other non-instructional services . . . . .	135,403	-	135,403
Food service operations . . . . .	-	603,324	603,324
Extracurricular activities . . . . .	258,052	197,732	455,784
Facilities acquisition and construction . . . . .	-	277,298	277,298
Debt service:			
Principal retirement . . . . .	93,000	-	93,000
Interest and fiscal charges . . . . .	106,901	-	106,901
Total expenditures . . . . .	<u>11,652,894</u>	<u>2,387,746</u>	<u>14,040,640</u>
Excess (deficiency) of revenues over (under) expenditures . . . . .	<u>934,436</u>	<u>(360,704)</u>	<u>573,732</u>
<b>Other financing sources (uses):</b>			
Transfers in . . . . .	-	172,584	172,584
Transfers (out) . . . . .	<u>(172,584)</u>	<u>-</u>	<u>(172,584)</u>
Total other financing sources (uses) . . . . .	<u>(172,584)</u>	<u>172,584</u>	<u>-</u>
Net change in fund balances . . . . .	761,852	(188,120)	573,732
<b>Fund balances (deficit) at beginning of year (restated) . . . . .</b>	(448,634)	81,002	(367,632)
<b>Increase in reserve for inventory . . . . .</b>	-	1,617	1,617
<b>Fund balances (deficit) at end of year . . . . .</b>	<u>\$ 313,218</u>	<u>\$ (105,501)</u>	<u>\$ 207,717</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MARGARETTA LOCAL SCHOOL DISTRICT  
ERIE COUNTY, OHIO**

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
(SEE ACCOUNTANT'S COMPILATION REPORT)

<b>Net change in fund balances - total governmental funds</b>	\$	573,732
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Government funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense in the current period.		
Capital asset additions	\$ 342,006	
Current year depreciation	<u>(258,908)</u>	
Total		83,098
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net assets.		
		(21,124)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Taxes	(1,148,480)	
Intergovernmental	<u>69,663</u>	
Total		(1,078,817)
Repayment of lease-purchase principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		
		93,000
In the statement of activities, interest is accrued on lease purchase agreements, whereas in governmental funds, an interest expenditure is reported when due. This resulted in less interest being reported in the statement of activities.		
		158
Governmental funds report expenditures for inventory when purchased. However, in the statement of activities they are reported as an expense when consumed.		
		1,617
Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
		<u>(123,183)</u>
<b>Change in net assets of governmental activities</b>	<b>\$</b>	<b><u>(471,519)</u></b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MARGARETTA LOCAL SCHOOL DISTRICT  
ERIE COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
(SEE ACCOUNTANT'S COMPILATION REPORT)

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
From local sources:				
Property taxes . . . . .	\$ 4,813,820	\$ 4,904,820	\$ 5,100,126	\$ 195,306
Tuition . . . . .	450,000	481,700	509,324	27,624
Earnings on investments . . . . .	10,000	10,000	1,038	(8,962)
Classroom materials and fees . . . . .	50,000	50,000	45,717	(4,283)
Rental income . . . . .	60,000	60,000	42,520	(17,480)
Contract services. . . . .	20,000	20,000	22,118	2,118
Other local revenues . . . . .	40,500	40,500	27,969	(12,531)
Intergovernmental - state . . . . .	6,458,319	6,491,619	6,417,523	(74,096)
Intergovernmental - federal . . . . .	-	30,000	33,583	3,583
Total revenues . . . . .	<u>11,902,639</u>	<u>12,088,639</u>	<u>12,199,918</u>	<u>111,279</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular . . . . .	4,454,756	4,245,644	4,427,519	(181,875)
Special. . . . .	1,053,098	1,057,002	1,009,136	47,866
Vocational. . . . .	271,749	272,549	263,782	8,767
Other. . . . .	385,000	600,500	598,326	2,174
Support services:				
Pupil. . . . .	538,352	508,352	495,278	13,074
Instructional staff . . . . .	681,106	668,499	643,924	24,575
Board of education . . . . .	205,337	212,337	189,554	22,783
Administration. . . . .	994,492	1,027,492	995,462	32,030
Fiscal . . . . .	409,111	445,611	445,180	431
Operations and maintenance. . . . .	1,353,078	1,343,078	1,293,776	49,302
Pupil transportation . . . . .	983,581	997,581	968,554	29,027
Central. . . . .	71,449	59,741	55,476	4,265
Operation of non-instructional services . . . . .	21,410	24,217	23,601	616
Extracurricular activities. . . . .	272,560	272,560	250,791	21,769
Debt service:				
Interest and fiscal charges. . . . .	199,930	199,930	199,901	29
Total expenditures . . . . .	<u>11,895,009</u>	<u>11,935,093</u>	<u>11,860,260</u>	<u>74,833</u>
Excess of revenues over expenditures. . . . .	<u>7,630</u>	<u>153,546</u>	<u>339,658</u>	<u>186,112</u>
<b>Other financing uses:</b>				
Transfers (out). . . . .	(40,000)	(174,916)	(172,584)	2,332
Total other financing sources uses . . . . .	<u>(40,000)</u>	<u>(174,916)</u>	<u>(172,584)</u>	<u>2,332</u>
Net change in fund balance . . . . .	(32,370)	(21,370)	167,074	188,444
<b>Fund balance at beginning of year . . . . .</b>	200,005	200,005	200,005	-
<b>Prior year encumbrances appropriated . . . . .</b>	123,885	123,885	123,885	-
<b>Fund balance at end of year . . . . .</b>	<u>\$ 291,520</u>	<u>\$ 302,520</u>	<u>\$ 490,964</u>	<u>\$ 188,444</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MARGARETTA LOCAL SCHOOL DISTRICT  
ERIE COUNTY, OHIO**

STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
JUNE 30, 2011  
(SEE ACCOUNTANT'S COMPILATION REPORT)

	<b>Private-Purpose Trust</b>	
	<b>Scholarship</b>	<b>Agency</b>
<b>Assets:</b>		
Equity in pooled cash and cash equivalents . . . . .	\$ 326,603	\$ 46,380
Receivables:		
Accrued interest. . . . .	410	-
Total assets. . . . .	327,013	\$ 46,380
<b>Liabilities:</b>		
Accounts payable. . . . .	-	\$ 520
Due to students. . . . .	-	45,860
Total liabilities . . . . .	-	\$ 46,380
<b>Net assets:</b>		
Held in trust for scholarships . . . . .	327,013	
Total net assets . . . . .	\$ 327,013	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MARGARETTA LOCAL SCHOOL DISTRICT  
ERIE COUNTY, OHIO**

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
(SEE ACCOUNTANT'S COMPILATION REPORT)

	<b>Private-Purpose Trust</b>
	<b>Scholarship</b>
<b>Additions:</b>	
Interest . . . . .	\$ 2,338
Gifts and contributions . . . . .	17,004
Total additions. . . . .	19,342
<b>Deductions:</b>	
Scholarships awarded . . . . .	32,975
Change in net assets. . . . .	(13,633)
<b>Net assets at beginning of year . . . . .</b>	<b>340,646</b>
<b>Net assets at end of year. . . . .</b>	<b>\$ 327,013</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MARGARETTA LOCAL SCHOOL DISTRICT  
ERIE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
(SEE ACCOUNTANT'S COMPILATION REPORT)

**NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT**

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

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

The District is the 422<sup>nd</sup> largest in the State of Ohio among 918 public and community schools in terms of enrollment. It currently operates 2 elementary schools and 1 high school. The District employs 65 non-certified employees and 83 certified (including administrative) employees to provide services to approximately 1,229 students.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. Reporting Entity**

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units". The reporting entity is composed of the primary government and component units. 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, community services and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's 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; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Certain organizations are also included as component units if the nature and significance of the relationship between the primary government and the organization is such that exclusion by the primary government would render the primary governments financial statements incomplete or misleading. Based upon the application of these criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government).

**MARGARETTA LOCAL SCHOOL DISTRICT  
ERIE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
(SEE ACCOUNTANT'S COMPILATION REPORT)

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

The following organizations are described due to their relationship to the District:

*JOINTLY GOVERNED ORGANIZATIONS*

Bay Area Council of Governments

The Bay Area Council of Governments (BACG) is a jointly governed organization. Members of the BACG consist of 26 school districts representing 7 counties (Ottawa, Sandusky, Seneca, Erie, Huron, Wood, and Crawford). The BACG was formed for the purpose of purchasing goods and services at a lower cost. The items currently being purchased through the council of governments are natural gas and insurance. The only cost to the District is an administrative charge if it participates in purchasing through the BACG. The membership of BACG consists of the superintendent of each participating school district. The Board of Directors of the BACG consists of one elected representative of each county, the superintendent of the fiscal agent and two non-voting members (administrator and fiscal agent). Members of the Board serve staggered two-year terms. The amount paid in fiscal year 2011 was \$46,309. Financial information can be obtained by contacting the North Point Educational Service Center, which serves as fiscal agent, at 2900 South Columbus Avenue, Sandusky, Ohio 44870.

Northern Ohio Educational Computer Association

The Northern Ohio Educational Computer Association (NOECA) is a jointly governed organization, which is a computer consortium. NOECA is an association of 41 public school districts formed for the purpose of applying modern technology (with the aid of computers and other electronic equipment) to administrative and instructional functions among member school 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. The amount paid in fiscal year 2011 was \$34,546. Financial information can be obtained from Betty Schwiefert, who serves as Controller, 2900 South Columbus Avenue, Sandusky, Ohio 44870.

*PUBLIC ENTITY RISK POOLS*

Workers' Compensation Group Rating Program

The District participates in the Ohio School Boards Association (OSBA) Workers' Compensation Group Rating Program (GRP). The GRP is sponsored by OSBA and administered by CompManagement, Inc. The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The District pays a fee to the GRP to cover the costs of administering the program.

Schools of Ohio Risk Sharing Authority

The District participates in the Schools of Ohio Risk Sharing Authority Board (SORSA), an insurance purchasing pool. SORSA's business affairs are conducted by a nine member Board of directors consisting of a President, Vice President, Secretary, Treasurer and five delegates. SORSA was created to provide joint self-insurance coverage and to assist members to prevent and reduce losses and injuries to the District's property and persons. It is intended to provide liability and property insurance at reduced premiums for the participants. SORSA is organized as a nonprofit corporation under provisions of Ohio Revised Code 2744.

**MARGARETTA LOCAL SCHOOL DISTRICT  
ERIE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
(SEE ACCOUNTANT'S COMPILATION REPORT)

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

Huron-Erie School Employees Insurance Association

The Huron-Erie School Employees Insurance Association (Association) is a public entity risk pool comprised of 13 districts. The Association assembly consists of a superintendent or designated representative from each participating district and the program administrator. The Association is governed by a Board of Directors chosen from the general membership. The degree of control exercised by any participating district is limited to its representation on the Board. Financial information can be obtained by contacting the program administrator at the Huron-Erie School Employees Insurance Association, located at 2900 Columbus Avenue, Sandusky, Ohio 44870.

**B. Fund Accounting**

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

*GOVERNMENTAL FUNDS*

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

*General fund* -The general fund is used to account for and report all financial resources not accounted for and reported in another fund. The general fund balance is available for any purpose provided it is expended or transferred according to the general laws of Ohio.

Other governmental funds of the District are used to account for (a) financial resources that are restricted, committed, or assigned to expenditures for capital outlays including the acquisition or construction of capital facilities and other capital assets, (b) specific revenue sources that are restricted or committed to an expenditure for specified purposes other than debt service or capital projects and (c) financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

*PROPRIETARY FUNDS*

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

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

*FIDUCIARY FUNDS*

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

**C. Measurement Focus**

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

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

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

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

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

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

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

**D. Basis of Accounting**

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

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

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

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

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

Unearned Revenue and Deferred Revenue - Unearned revenue and deferred revenue arise when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of June 30, 2011, but which were levied to finance fiscal year 2012 operations, and other revenues received in advance of the fiscal year for which they are intended to finance, have been recorded as unearned revenue. Grants and entitlements received before the eligibility requirements are met and delinquent property taxes due at June 30, 2011 are recorded as deferred revenue on the governmental fund financial statements.

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

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The entitlement value of donated commodities received during the year is reported in the statement of revenues, expenditures and changes in fund balances as an expenditure with a like amount reported as intergovernmental revenue.

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

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

**E. Budgets**

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated. The legal level of budgetary control is at the fund, function, object level for the general fund and at the fund level for all other funds.

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

Tax Budget:

Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The purpose of this budget document is to reflect the need for an existing (or increased) tax rate. By no later than January 20, the Board-adopted budget is filed with Erie County Budget Commission for rate determination.

Estimated Resources:

By April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's certificate of estimated resources, which states the projected revenue of each fund. Prior to July 1, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered cash balances from the preceding year. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statements reflect the amounts in the original and final certificates of estimated resources issued during the fiscal year.

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

Appropriations:

Upon receipt from the County Auditor of an amended certificate of estimated resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution is enacted by the Board of Education. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the District. The appropriation resolution, by fund, must be within the estimated resources as certified by the County Budget Commission and the total of expenditures may not exceed the appropriation totals at any level of control. Any revisions that alter the legal level of budgetary control must be approved by the Board of Education.

The Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources. During the year, all supplemental appropriations were legally enacted.

The appropriation resolution is subject to amendment by the Board throughout the year with the restriction that appropriations may not exceed estimated revenues. The amounts reported as the original budget amounts reflect the first appropriation for the fund that covered the entire fiscal year, including amounts automatically carried over from prior year. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the year.

Lapsing of Appropriations:

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

Encumbrance accounting is utilized with District funds in the normal course of operations, for purchase orders and contract related expenditures. An encumbrance is a reserve on the available spending authority due to commitment for a future expenditure and does not represent a liability.

**F. Cash and Investments**

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

During fiscal year 2011, investments were limited to nonnegotiable certificates of deposits and investments in the State Treasury Asset Reserve of Ohio (STAR Ohio). Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts, such as nonnegotiable certificates of deposit, are recorded at cost.

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

The District has invested funds in STAR Ohio during fiscal year 2011. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's shares price which is the price the investment could be sold for on June 30, 2011.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. The Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2011 amounted to \$944.

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

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

**G. Inventory**

On government-wide financial statements, purchased inventories are presented at the lower of cost or market and donated commodities are presented at their entitlement value. Inventories are recorded on a first-in, first-out basis. Inventories are accounted for using the purchase method on the fund financial statements and using the consumption method on the government-wide financial statements.

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

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

**H. Capital Assets**

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and deductions during the year. Donated capital assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$5,000. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

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

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Land improvements	15 - 25 years
Buildings and improvements	20 - 50 years
Furniture and equipment	5 - 20 years
Vehicles	6 - 10 years

**I. Interfund Balances**

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

On fund financial statements, receivables and payables resulting from short-term interfund loans from the general fund to cover negative cash balances in other governmental funds are classified as "due to/from other funds". These amounts are eliminated in the governmental type activities columns on the statement of net assets.

**J. Compensated Absences**

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

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination (severance) payments. A liability for sick leave is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at the balance sheet date by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees age fifty or greater with at least ten years of service and all employees with at least twenty years of service regardless of their age were considered expected to become eligible in accordance with GASB Statement No. 16.

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

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

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported.

**K. Accrued Liabilities and Long-Term Obligations**

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

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

**L. Fund Balance**

Fund balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

*Nonspendable* - The nonspendable fund balance classification includes amounts that cannot be spent because they are not in spendable form or are legally required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of loans receivable.

*Restricted* - Fund balance is reported as restricted when constraints are placed on the use of resources that are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation.

*Committed* - The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the District Board of Education (the highest level of decision making authority). Those committed amounts cannot be used for any other purpose unless the District Board of Education removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

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

*Assigned* - Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted nor committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of the District Board of Education, which includes giving the Treasurer the authority to constrain monies for intended purposes.

*Unassigned* - Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is only used to report a deficit fund balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The District applies restricted resources first when expenditures are incurred for purposes for which restricted and unrestricted (committed, assigned, and unassigned) fund balance is available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

**M. Net Assets**

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

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

**N. Estimates**

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

**O. Interfund Activity**

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

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

**P. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2011.

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE**

**A. Change in Accounting Principles**

For fiscal year 2011, the District has implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions", and GASB Statement No. 59, "Financial Instruments Omnibus".

GASB Statement No. 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. GASB Statement No. 54 also clarifies the definitions of governmental fund types.

GASB Statement No. 59 updates and improves guidance for financial reporting and disclosure requirements of certain financial instruments and external investment pools. The implementation of GASB Statement No. 59 did not have an effect on the financial statements of the District.

**B. Fund Reclassifications**

Fund reclassifications are required in order to report funds in accordance with GASB Statement No 54. These fund reclassifications had the following effect on the District's governmental fund balances as previously reported:

	General	Nonmajor Governmental	Total Governmental
Fund balance (deficit) as previously reported	\$ (479,202)	\$ 111,570	\$ (367,632)
Fund reclassifications:			
Public school support fund	30,568	(30,568)	-
Total fund reclassifications	30,568	(30,568)	-
Restated fund balance (deficit) at July 1, 2010	\$ (448,634)	\$ 81,002	\$ (367,632)

The fund reclassifications did not have an effect on net assets as previously reported.

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**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)**

**C. Deficit Fund Balances**

Fund balances at June 30, 2011 included the following individual fund deficits:

<u>Nonmajor funds</u>	<u>Deficit</u>
Education jobs	\$ 88,033
Race to the top	11,612
IDEA, Part B	91,290
Title I, disadvantaged children	63,030
Improving teacher quality	16,023
Miscellaneous federal grants	18,929
Building	50,000

The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances resulted from adjustments for accrued liabilities.

**NOTE 4 - DEPOSITS AND INVESTMENTS**

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

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

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

Interim deposits are deposits of interim monies. 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 passbook accounts.

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;

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**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

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 items (1) and (2) above 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 banker's acceptance and commercial paper notes for a period not to exceed one-hundred-eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

Protection of the 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.

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

**A. Deposits with Financial Institutions**

At June 30, 2011, the carrying amount of all District deposits was \$653,764. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2011, \$255,622 of the District's bank balance of \$756,384 was exposed to custodial risk as discussed below, while \$500,762 was covered by the FDIC.

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**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

Custodial credit risk is the risk that, in the event of bank failure, the District's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the District. The District has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the District to a successful claim by the FDIC.

**B. Investments**

As of June 30, 2011, the District had the following investments and maturities:

<u>Investment type</u>	<u>Investment Maturities</u>	
	<u>Fair Value</u>	<u>6 months or less</u>
STAR Ohio	<u>\$ 564,198</u>	<u>\$ 564,198</u>

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

*Credit Risk:* Standard & Poor's has assigned STAR Ohio an AAAM money market rating. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The District's investment policy does not specifically address credit risk beyond requiring the District to only invest in securities authorized by State statute.

*Custodial Credit Risk:* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Treasurer or qualified trustee.

*Concentration of Credit Risk:* The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2011:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
STAR Ohio	<u>\$ 564,198</u>	<u>100.00</u>

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**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

**C. Reconciliation of Cash and Investments to the Statement of Net Assets**

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net assets as of June 30, 2011:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 653,764
Investments	<u>564,198</u>
 Total	 <u>\$ 1,217,962</u>
 <u>Cash and investments per statement of net assets</u>	
Governmental activities	\$ 844,979
Private-purpose trust funds	326,603
Agency fund	<u>46,380</u>
 Total	 <u>\$ 1,217,962</u>

**NOTE 5 - INTERFUND TRANSACTIONS**

A. Interfund balances at June 30, 2011 as reported on the fund statements, consist of the following amounts due to/from other funds:

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
General	Nonmajor governmental funds	<u>\$ 118,978</u>

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

Interfund balances between governmental funds are eliminated on the government-wide financial statements.

B. Interfund transfers for the year ended June 30, 2011, consisted of the following, as reported on the fund financial statements:

<u>Transfers to nonmajor governmental funds from:</u>	<u>Amount</u>
General fund	<u>\$ 172,584</u>

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

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**NOTE 5 - INTERFUND TRANSACTIONS - (Continued)**

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

All transfers made in fiscal year 2011 were in accordance with Ohio Revised Code Sections 5705.14, 5705.15 and 5705.16.

- C. Long-term advances to/from other funds at June 30, 2011 as reported on the fund statements, consisted of the following:

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
General fund	Nonmajor governmental fund	<u>\$ 50,000</u>

The primary purpose of the advances is to cover costs in specific funds where revenues were not received by June 30, 2011. These advances will be repaid once anticipated revenues are received. All long-term advances are not expected to be repaid within one year.

Advances between governmental funds are eliminated on the government-wide financial statements.

**NOTE 6 - PROPERTY TAXES**

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

Property taxes include amounts levied against all real property, public utility property, and certain tangible personal (used in business) property located in the District. Real property tax revenues received in calendar year 2011 represent the collection of calendar year 2010 taxes. Real property taxes received in calendar year 2011 were levied after April 1, 2010, on the assessed values as of January 1, 2010, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established. Public utility property tax revenues received in calendar year 2011 represent the collection of calendar year 2010 taxes. Public utility real and tangible personal property taxes received in calendar year 2011 became a lien on December 31, 2009, were levied after April 1, 2010, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax revenues received in the District's fiscal year ended June 30, 2011 (other than public utility property) generally represent the collection of calendar year 2010 taxes levied against local and inter-exchange telephone companies. Tangible personal property taxes received from telephone companies in calendar year 2010 were levied after October 1, 2009 on the value as of December 31, 2009. Amounts paid by multi-county taxpayers were due September 20, 2010. Single county taxpayers could pay annually or semiannually. If paid semiannually, the first payment was due April 30, 2010, with the remainder payable by September 20, 2010.

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**NOTE 6 - PROPERTY TAXES - (Continued)**

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 by June 30, 2011, are available to finance fiscal year 2011 operations. The amount available as an advance at June 30, 2011 was \$1,018,954 in the general fund and \$29,193 in the permanent improvement fund (a nonmajor governmental fund). This amount is recorded as revenue. The amount available for advance at June 30, 2010 was \$606,789 in the general fund and \$21,636 in the permanent improvement fund (a nonmajor governmental fund). The amount of second-half real property taxes available for advance at fiscal year-end can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and delinquent tangible personal property taxes which are measurable as of June 30, 2011 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to unearned revenue.

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

The assessed values upon which the fiscal year 2011 taxes were collected are:

	2010 Second Half Collections		2011 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 167,373,620	95.77	\$ 167,682,420	95.94
Public utility personal	6,803,360	3.89	7,099,240	4.06
Tangible personal property	<u>597,900</u>	<u>0.34</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 174,774,880</u>	<u>100.00</u>	<u>\$ 174,781,660</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation		\$56.80		\$63.70

**NOTE 7 - RECEIVABLES**

Receivables at June 30, 2011 consisted of taxes and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the statement of net assets follows:

<b>Governmental activities:</b>	
Property taxes	\$ 5,905,231
Intergovernmental	<u>354,511</u>
Total	<u>\$ 6,259,742</u>

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

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**NOTE 8 - CAPITAL ASSETS**

A. Capital asset activity for the fiscal year ended June 30, 2011, was as follows:

<b>Governmental activities:</b>	Balance			Balance
	<u>06/30/10</u>	<u>Additions</u>	<u>Deductions</u>	<u>06/30/11</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 103,182	\$ -	\$ -	\$ 103,182
Total capital assets, non being depreciated	<u>103,182</u>	<u>-</u>	<u>-</u>	<u>103,182</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	1,272,992	-	-	1,272,992
Building and improvements	8,405,291	201,934	-	8,607,225
Furniture and equipment	660,548	62,283	(17,700)	705,131
Vehicles	<u>1,377,496</u>	<u>77,789</u>	<u>(45,300)</u>	<u>1,409,985</u>
Total capital assets, being depreciated	<u>11,716,327</u>	<u>342,006</u>	<u>(63,000)</u>	<u>11,995,333</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(1,036,156)	(23,121)	-	(1,059,277)
Building and improvements	(3,910,669)	(134,739)	-	(4,045,408)
Furniture and equipment	(476,593)	(21,167)	1,106	(496,654)
Vehicles	<u>(937,763)</u>	<u>(79,881)</u>	<u>40,770</u>	<u>(976,874)</u>
Total accumulated depreciation	<u>(6,361,181)</u>	<u>(258,908)</u>	<u>41,876</u>	<u>(6,578,213)</u>
Governmental activities capital assets, net	<u>\$ 5,458,328</u>	<u>\$ 83,098</u>	<u>\$ (21,124)</u>	<u>\$ 5,520,302</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:

Regular	\$ 101,230
Special	1,144

Support services:

Administration	8,254
Operations and maintenance	16,247
Pupil transportation	90,102

Operation of non-instructional services:

Other non-instructional services	342
Food service operations	4,724
Extracurricular activities	<u>36,865</u>
Total depreciation expense	<u>\$ 258,908</u>

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**NOTE 9 - LEASE-PURCHASE AGREEMENT**

During a prior fiscal year, the District entered into a lease-purchase agreement with Columbus Regional Airport Authority. The lease meets the criteria of a lease-purchase as defined by FASB Statement No. 13, "Accounting for Leases", which defines a lease-purchase generally as one which transfers benefits and risks of ownership to the lessee. The lease was used to fund the District's capital improvement project. Capital assets acquired by the lease purchase have been capitalized in the amount of \$2,764,450. Accumulated depreciation at June 30, 2011 was \$145,134 leaving a book value of \$2,619,316. Lease-purchase payments have been reflected as debt service expenditures in the general fund. There was \$93,000 in principal payments in fiscal year 2011.

The following is a schedule of the future long-term minimum lease payments required under the lease-purchase agreement and the present value of the minimum lease payments as of June 30, 2011.

Fiscal Year Ending <u>June 30,</u>	<u>Total</u>
2012	\$ 198,941
2013	198,806
2014	198,501
2015	199,007
2016	198,323
2017 - 2021	987,537
2022 - 2026	978,570
2027 - 2028	<u>578,449</u>
Total minimum lease payments	3,538,134
Less: amount representing interest	<u>(1,053,134)</u>
Present value of minimum lease payments	<u>\$ 2,485,000</u>

**NOTE 10 - LONG-TERM OBLIGATIONS**

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

	Balance Outstanding <u>06/30/10</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>06/30/11</u>	Amounts Due in <u>One Year</u>
Lease-purchase agreement	\$ 2,578,000	\$ -	\$ (93,000)	\$ 2,485,000	\$ 96,000
Compensated absences	<u>811,187</u>	<u>149,537</u>	<u>(124,436)</u>	<u>836,288</u>	<u>59,967</u>
Total governmental activities	<u>\$ 3,389,187</u>	<u>\$ 149,537</u>	<u>\$ (217,436)</u>	<u>\$ 3,321,288</u>	<u>\$ 155,967</u>

*Compensated Absences:* Compensated absences will be paid from the fund from which the employee's salaries are paid which, for the District, are primarily the general fund and the food service fund (a nonmajor governmental fund).

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**NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)**

**B. Legal Debt Margin**

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The code additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1% of the property valuation of the District. The assessed valuation used in determining the District's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District's legal debt margin calculation excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The effects of these debt limitations at June 30, 2011, are a voted debt margin of \$15,730,349 and an unvoted debt margin of \$174,782.

**NOTE 11 - OTHER EMPLOYEE BENEFITS**

**A. Compensated Absences**

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

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

**B. Insurance Benefits**

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

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**NOTE 12 - RISK MANAGEMENT**

**A. Comprehensive**

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. During fiscal year 2011 the District has contracted with the Schools of Ohio Risk Sharing Authority (SORSA) to provide insurance coverage in the following amounts:

<u>Limits of Coverage</u>	<u>Carrier</u>	<u>Coverage</u>	<u>Deductible</u>
General liability:			
Each occurrence	Indiana Insurance	\$ 4,000,000	\$ -
Aggregate		6,000,000	-
Fleet:			
Comprehensive	Indiana Insurance	4,000,000	500
Collision			500
Umbrella liability	Indiana Insurance	4,000,000	-
Building and contents	Indiana Insurance	44,967,376	500

Settled claims have not exceeded this commercial coverage in any of the past three years. There has been no significant reduction in coverage from the prior year.

**B. Huron-Erie School Employees Insurance Association**

The District has contracted with the Huron-Erie School Employees Insurance Association (Association) to provide medical/surgical, prescription drug and dental insurance benefits for its employees and their covered dependents. The Association is a shared risk pool comprised of 13 school districts that provide public education within Erie and Huron Counties. The Districts pay monthly contributions that are placed in a common fund from which eligible claims and expenses are paid for employees of participating school districts and their covered dependents. Claims are paid for all participants regardless of claims flow.

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

Post employment health care is provided to plan participants or their beneficiaries through the respective retirement systems discussed in Note 14. As such, no funding provisions are required by the District.

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**NOTE 12 - RISK MANAGEMENT - (Continued)**

**C. OSBA Workers' Compensation Group Rating Plan**

For fiscal year 2011, the District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (the "Plan"), an insurance purchasing pool (Note 2.A.). The intent of the Plan is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the Plan. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the Plan. Each participant pays its workers' compensation premium to the state based on the rate for the Plan rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the Plan.

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

**NOTE 13 - PENSION PLANS**

**A. School Employees Retirement System**

Plan Description - The District contributes to the School Employees Retirement System (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement, disability, survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, [www.ohsers.org](http://www.ohsers.org), under "*Media/Financial Reports*".

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2011, 11.77 percent and 0.04 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contributions for pension obligations and death benefits to SERS for the fiscal years ended June 30, 2011, 2010 and 2009 were \$228,855, \$246,783 and \$182,680, respectively; 48.47 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

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**NOTE 13 - PENSION PLANS - (Continued)**

**B. State Teachers Retirement System of Ohio**

Plan Description - The District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio website at [www.strsoh.org](http://www.strsoh.org), under "Publications".

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

Funding Policy - For fiscal year 2011, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2011, 2010 and 2009 were \$709,031, \$706,687 and \$773,787, respectively; 83.59 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009. Contributions to the DC and Combined Plans for fiscal year 2011 were \$594 made by the District and \$424 made by the plan members.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the SERS/STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2011, certain members of the Board of Education have elected Social Security. The District's liability is 6.2 percent of wages paid.

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**NOTE 14 - POSTEMPLOYMENT BENEFITS**

**A. School Employees Retirement System**

Plan Description - The District participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Chapter 3309.69 of the Ohio Revised Code. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2011 was \$96.40 and SERS' reimbursement to retirees was \$45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, [www.ohsers.org](http://www.ohsers.org), under "*Media/Financial Reports*".

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2011, 1.43 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2011, the actuarially determined amount was \$35,800.

Active members do not contribute to the postemployment benefit plans. The Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility and retirement status.

The District's contributions for health care (including surcharge) for the fiscal years ended June 30, 2011, 2010 and 2009 were \$57,550, \$40,077 and \$116,616, respectively; 48.47 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2011, this actuarially required allocation was 0.76 percent of covered payroll. The District's contributions for Medicare Part B for the fiscal years ended June 30, 2011, 2010, and 2009 were \$14,727, \$14,676 and \$15,073, respectively; 48.47 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

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**NOTE 14 - POSTEMPLOYMENT BENEFITS - (Continued)**

**B. State Teachers Retirement System of Ohio**

Plan Description - The District contributes to the cost sharing, multiple employer defined benefit Health Plan (the "Plan") administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting [www.strsoh.org](http://www.strsoh.org), under "Publications" or by calling (888) 227-7877.

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2011, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The District's contributions for health care for the fiscal years ended June 30, 2011, 2010 and 2009 were \$54,541, \$54,361 and \$59,522, respectively; 83.59 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

**NOTE 15 - BUDGETARY BASIS OF ACCOUNTING**

While reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts and disbursements.

The statement of revenue, expenditures and changes in fund balance - budget and actual (non-GAAP budgetary basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to assigned or committed fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis); and,
- (d) Some funds are included in the general fund (GAAP basis), but have separate legally adopted budgets (budget basis).

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**NOTE 15 - BUDGETARY BASIS OF ACCOUNTING - (Continued)**

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the general fund is as follows:

**Net Change in Fund Balance**

	<u>General fund</u>
Budget basis	\$ 167,074
Net adjustment for revenue accruals	261,189
Net adjustment for expenditure accruals	203,694
Funds budgeted elsewhere	14,928
Adjustment for encumbrances	<u>114,967</u>
GAAP basis	<u>\$ 761,852</u>

Certain funds that are legally budgeted in separate special revenue funds are considered part of the general fund on a GAAP basis. This includes the public school support fund.

**NOTE 16 - CONTINGENCIES**

**A. Grants**

The District receives significant financial assistance from numerous federal, State and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the District. However, in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the District.

**B. Litigation**

The District is not party to legal proceedings which, in the opinion of District management, will have a material effect, if any, on the financial condition of the District.

**MARGARETTA LOCAL SCHOOL DISTRICT  
ERIE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
(SEE ACCOUNTANT'S COMPILATION REPORT)

**NOTE 17 - SET-ASIDES**

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 the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at fiscal year-end. These amounts must be carried forward to be used for the same purposes in future years.

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

	<u>Textbooks</u>	<u>Capital Improvements</u>
Set-aside balance June 30, 2010	\$ -	\$ -
Current year set-aside requirement	195,825	195,825
Contributions in excess of the current fiscal year set-aside requirement	-	-
Current year qualifying expenditures	(180,422)	(258,833)
Excess qualified expenditures from prior years	(1,604,097)	-
Current year offsets	-	(225,986)
Waiver granted by ODE	-	-
Prior year offset from bond proceeds	-	-
Total	<u>\$ (1,588,694)</u>	<u>\$ (288,994)</u>
Balance carried forward to fiscal year 2012	<u>\$ -</u>	<u>\$ -</u>
Set-aside balance June 30, 2011	<u>\$ -</u>	<u>\$ -</u>

The District had qualifying disbursements and offsets during the fiscal year that reduced the textbook set-aside amount to below zero. Effective July 1, 2011, the textbook set-aside is no longer required and has been removed from existing law. This negative balance is therefore not being presented as being carried forward to the future fiscal year. Although the District had qualifying disbursements and offsets during the fiscal year that reduced the set-aside amount to below zero for the capital improvements set-aside, this amount may not be used to reduce the set-aside requirement for future fiscal years. The negative balance is therefore not presented as being carried forward to future fiscal years.

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 18 - OTHER COMMITMENTS**

The District utilizes encumbrance accounting as part of its budgetary controls. Encumbrances outstanding at year end may be reported as part of restricted, committed, or assigned classifications of fund balance. At year end, the District's commitments for encumbrances in the governmental funds were as follows:

<u>Fund</u>	<u>Year-End Encumbrances</u>
General	\$ 73,822
Nonmajor governmental funds	<u>3,735</u>
Total	<u>\$ 77,557</u>