



**MARION LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**REGULAR AUDIT**

**FOR THE YEAR ENDED JUNE 30, 1999**



**JIM PETRO**  
**AUDITOR OF STATE**  

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**STATE OF OHIO**



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STATE OF OHIO  
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

One First National Plaza  
130 West Second Street  
Suite 2040  
Dayton, Ohio 45402  
Telephone 937-285-6677  
800-443-9274  
Facsimile 937-285-6688  
www.auditor.state.oh.us

## REPORT OF INDEPENDENT ACCOUNTANTS

Marion Local School District  
Mercer County  
1901 State Route 716  
Maria Stein, Ohio 45860

To the Board of Education:

We have audited the accompanying general-purpose financial statements of the Marion Local School District, Mercer County, (the District) as of and for the year ended June 30, 1999, as listed in the table of contents. These general-purpose financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Marion Local School District, Mercer County, as of June 30, 1999, and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 11, 2000 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

**Jim Petro**  
Auditor of State

February 11, 2000



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**COMBINED BALANCE SHEET  
ALL FUND TYPES AND ACCOUNT GROUPS  
JUNE 30, 1999**

	<b>Governmental Fund Types</b>			
	<b>General</b>	<b>Special Revenue</b>	<b>Debt Service</b>	<b>Capital Projects</b>
<b>Assets and Other Debits:</b>				
Equity in Pooled Cash and Cash Equivalents	\$2,021,151	\$70,954	\$110,118	\$213,137
<b>Receivables:</b>				
Taxes	1,376,234	0	246,728	50,728
Interfund Receivable	66,980	0	0	0
<b>Restricted Assets:</b>				
Equity in Pooled Cash and Cash Equivalents	140,624	0	0	0
Materials and Supplies Inventory	0	0	0	0
Fixed Assets	0	0	0	0
Accumulated Depreciation	0	0	0	0
<b>Other Debits:</b>				
Amount in Debt Service Fund for Retirement of Provided from General Government Resources	0 0	0 0	0 0	0 0
<b>Total Assets and Other Debits</b>	<b><u>\$3,604,989</u></b>	<b><u>\$70,954</u></b>	<b><u>\$356,846</u></b>	<b><u>\$263,865</u></b>
<b>Liabilities:</b>				
Accounts Payable	\$534	\$0	\$0	\$0
Accrued Wages and Benefits	503,262	143	0	0
Compensated Absences Payable	13,710	0	0	0
Interfund Payable	0	5,575	0	37,305
Intergovernmental Payable	66,879	0	0	0
Deferred Revenue	1,346,562	0	245,564	50,432
Due to Students	0	0	0	0
Asbestos Removal Loan Payable	0	0	0	0
General Obligation Bonds Payable	0	0	0	0
<b>Total Liabilities</b>	<b><u>\$1,930,947</u></b>	<b><u>\$5,718</u></b>	<b><u>\$245,564</u></b>	<b><u>\$87,737</u></b>
<b>Fund Equity and Other Credits:</b>				
Investment in General Fixed Assets	0	0	0	0
Contributed Capital	0	0	0	0
Retained Earnings:				
Unreserved	0	0	0	0
Fund Balances:				
Reserved:				
Reserved for Encumbrances	86,290	10,949	0	0
Reserved for Debt Service Principal	0	0	110,118	0
Reserved for Property Taxes	29,672	0	1,164	296
Reserved for Textbooks & Instructional Materials	7,533	0	0	0
Reserved for Capital Improvements	6,754	0	0	0
Reserved for Budget Stabilization	54,318	0	0	0
Reserved for Bus Purchase	72,019	0	0	0
Designated for Capital Improvements	37,653	0	0	0
Unreserved, Undesignated	1,379,803	54,287	0	175,832
<b>Total Fund Equity and Other Credits</b>	<b><u>1,674,042</u></b>	<b><u>65,236</u></b>	<b><u>111,282</u></b>	<b><u>176,128</u></b>
<b>Total Liabilities, Fund Equity and Other Credits</b>	<b><u>\$3,604,989</u></b>	<b><u>\$70,954</u></b>	<b><u>\$356,846</u></b>	<b><u>\$263,865</u></b>

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

Proprietary Fund Types		Fiduciary Fund Types	Account Groups		Totals (Memorandum)
Enterprise	Internal Service	Trust and Agency	General Fixed Asset Account Group	General Long-Term Debt Account Group	
\$123,695	\$755	\$46,232	\$0	\$0	\$2,586,042
0	0	0	0	0	1,673,690
0	0	0	0	0	66,980
0	0	0	0	0	140,624
7,466	0	0	0	0	7,466
181,343	0	0	10,049,343	0	10,230,686
(99,632)	0	0	0	0	(99,632)
0	0	0	0	110,118	110,118
0	0	0	0	3,096,452	3,096,452
<u>\$212,872</u>	<u>\$755</u>	<u>\$46,232</u>	<u>\$10,049,343</u>	<u>\$3,206,570</u>	<u>\$17,812,426</u>
\$0	\$0	\$0	\$0	\$0	\$534
17,911	0	0	0	0	521,316
9,729	0	0	0	275,374	298,813
24,100	0	0	0	0	66,980
12,629	0	0	0	25,957	105,465
5,695	0	0	0	0	1,648,253
0	0	46,232	0	0	46,232
0	0	0	0	125,239	125,239
0	0	0	0	2,780,000	2,780,000
<u>\$70,064</u>	<u>\$0</u>	<u>\$46,232</u>	<u>\$0</u>	<u>\$3,206,570</u>	<u>\$5,592,832</u>
0	0	0	10,049,343	0	10,049,343
61,562	0	0	0	0	61,562
81,246	755	0	0	0	82,001
0	0	0	0	0	97,239
0	0	0	0	0	110,118
0	0	0	0	0	31,132
0	0	0	0	0	7,533
0	0	0	0	0	6,754
0	0	0	0	0	54,318
0	0	0	0	0	72,019
0	0	0	0	0	37,653
0	0	0	0	0	1,609,922
<u>142,808</u>	<u>755</u>	<u>0</u>	<u>10,049,343</u>	<u>0</u>	<u>12,219,594</u>
<u>\$212,872</u>	<u>\$755</u>	<u>\$46,232</u>	<u>\$10,049,343</u>	<u>\$3,206,570</u>	<u>\$17,812,426</u>

**COMBINED STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED JUNE 30, 1999**

	Governmental Fund Types				Totals (Memorandum)
	General	Special Revenue	Debt Service	Capital Projects	
<b>Revenues:</b>					
Intergovernmental	\$3,351,702	\$111,697	\$25,853	\$384,803	\$3,874,055
Interest	125,367	534	0	4,367	130,268
Tuition and Fees	12,951	0	0	0	12,951
Rent	5,298	0	0	0	5,298
Extracurricular Activities	6,740	106,201	0	0	112,941
Property & Other Local Taxes	1,408,751	0	248,409	51,666	1,708,826
Miscellaneous	1,294	2,304	2,145	0	5,743
<b>Total Revenues</b>	<u>4,912,103</u>	<u>220,736</u>	<u>276,407</u>	<u>440,836</u>	<u>5,850,082</u>
<b>Expenditures:</b>					
<b>Current:</b>					
<b>Instruction:</b>					
Regular	2,510,499	13,833	0	79,394	2,603,726
Special	142,900	29,867	0	0	172,767
Vocational	114,882	0	0	0	114,882
Other	244	0	0	0	244
<b>Support Services:</b>					
Pupils	133,730	5,275	0	0	139,005
Instructional Staff	218,178	44,647	0	0	262,825
Board of Education	20,540	0	0	0	20,540
Administration	482,614	14,122	0	0	496,736
Fiscal	162,370	0	5,438	2,113	169,921
Business	749	0	0	0	749
Operation and Maintenance of Plant	325,970	0	0	0	325,970
Pupil Transportation	196,183	0	0	0	196,183
Central	74,703	122	0	0	74,825
Extracurricular activities	120,271	88,131	0	0	208,402
Capital Outlay	0	12,750	0	457,069	469,819
<b>Debt Service:</b>					
Debt Service - Principal	0	0	75,994	0	75,994
Debt Service - Interest	0	0	167,154	0	167,154
<b>Total Expenditures</b>	<u>4,503,833</u>	<u>208,747</u>	<u>248,586</u>	<u>538,576</u>	<u>5,499,742</u>
<b>Excess of Revenues Over (Under) Expenditures</b>	<u>408,270</u>	<u>11,989</u>	<u>27,821</u>	<u>(97,740)</u>	<u>350,340</u>
<b>Other Financing Sources and Uses</b>					
Operating Transfers In	50,226	0	0	2,400	52,626
Refund of Prior Year Expenditures	280	0	0	0	280
Other Financing Sources	0	3,844	0	17,600	21,444
Operating Transfers Out	(2,400)	0	0	(50,226)	(52,626)
<b>Total Other Financing Sources (Uses)</b>	<u>48,106</u>	<u>3,844</u>	<u>0</u>	<u>(30,226)</u>	<u>21,724</u>
<b>Excess of Rev and Other over Exp and Other...</b>	<u>456,376</u>	<u>15,833</u>	<u>27,821</u>	<u>(127,966)</u>	<u>372,064</u>
<b>Fund Balance at Beginning of Year</b>	<u>1,217,666</u>	<u>49,403</u>	<u>83,461</u>	<u>304,094</u>	<u>1,654,624</u>
<b>Fund Balance at End of Year</b>	<u>\$1,674,042</u>	<u>\$65,236</u>	<u>\$111,282</u>	<u>\$176,128</u>	<u>\$2,026,688</u>

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

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**COMBINED STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
BUDGET-ACTUAL (NON-GAAP BUDGETARY BASIS)  
ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED JUNE 30, 1999**

	<u>General</u>		<b>Variance: Favorable (Unfavorable)</b>
	<u>Budget</u>	<u>Actual</u>	
<b>Revenues:</b>			
Intergovernmental	\$3,016,131	\$3,351,785	\$335,654
Interest	60,000	132,533	72,533
Tuition and Fees	10,200	12,951	2,751
Rent	4,000	5,298	1,298
Extracurricular Activities	13,000	6,740	(6,260)
Property & Other Local Taxes	1,293,300	1,404,677	111,377
Miscellaneous	3,000	1,368	(1,632)
<b>Total Revenues</b>	<u>4,399,631</u>	<u>4,915,352</u>	<u>515,721</u>
<b>Expenditures:</b>			
<b>Current:</b>			
<b>Instruction:</b>			
Regular	2,670,558	2,553,032	117,526
Special	161,020	145,377	15,643
Vocational	157,864	133,797	24,067
Other	1,000	244	756
<b>Support Services:</b>			
Pupils	145,919	133,091	12,828
Instructional Staff	233,324	224,203	9,121
Board of Education	33,461	20,958	12,503
Administration	520,587	491,251	29,336
Fiscal	178,802	162,374	16,428
Business	1,500	749	751
Operation and Maintenance of Plant	423,720	340,199	83,521
Pupil Transportation	300,288	203,945	96,343
Central	157,515	87,667	69,848
Extracurricular activities	127,606	120,086	7,520
Capital Outlay	33,526	100	33,426
<b>Debt Service:</b>			
Debt Service - Principal	0	0	0
Debt Service - Interest	0	0	0
<b>Total Expenditures</b>	<u>5,146,690</u>	<u>4,617,073</u>	<u>529,617</u>
<b>Excess of Revenues Over (Under) Expenditures</b>	<u>(747,059)</u>	<u>298,279</u>	<u>1,045,338</u>
<b>Other Financing Sources and Uses</b>			
Operating Transfers In	175,540	175,540	0
Refund of Prior Year Expenditures	249	280	31
Advances In	0	50,288	50,288
Other Financing Sources	0	0	0
Operating Transfers Out	(128,000)	(127,714)	286
Advances Out	(60,000)	(52,672)	7,328
Other Financing Uses	(58,000)	0	58,000
<b>Total Other Financing Sources (Uses)</b>	<u>(70,211)</u>	<u>45,722</u>	<u>115,933</u>
<b>Excess of Rev and Other over Exp and Other...</b>	<u>(817,270)</u>	<u>344,001</u>	<u>1,161,271</u>
<b>Fund Balances at Beginning of Year</b>	1,574,283	1,574,283	0
Prior Year Encumbrances Appropriated	156,668	156,668	0
<b>Fund Balance at end of Year</b>	<u>\$913,681</u>	<u>\$2,074,952</u>	<u>\$1,161,271</u>

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

Special Revenue			Debt Service			Capital Projects		
Budget	Actual	Variance: Favorable (Unfavorable)	Budget	Actual	Variance: Favorable (Unfavorable)	Budget	Actual	Variance: Favorable (Unfavorable)
\$77,345	\$71,701	(\$5,644)	\$31,081	\$25,853	(\$5,228)	\$456,589	\$384,803	(\$71,786)
1,700	534	(1,166)	0	0	0	3,000	4,799	1,799
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
110,050	106,201	(3,849)	0	0	0	0	0	0
0	0	0	233,938	251,653	17,715	46,051	52,588	6,537
2,750	2,304	(446)	0	2,145	2,145	0	0	0
191,845	180,740	(11,105)	265,019	279,651	14,632	505,640	442,190	(63,450)
40,940	23,552	17,388	0	0	0	82,259	79,394	2,865
39,994	36,759	3,235	0	0	0	0	0	0
0	0	0	0	0	0	667	0	667
0	0	0	0	0	0	0	0	0
6,500	5,275	1,225	0	0	0	0	0	0
6,443	5,974	469	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
17,979	14,967	3,012	0	0	0	0	0	0
0	0	0	7,000	5,438	1,562	2,300	2,113	187
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
2,719	122	2,597	0	0	0	0	0	0
119,254	88,152	31,102	0	0	0	0	0	0
15,000	12,750	2,250	0	0	0	635,040	457,069	177,971
0	0	0	77,000	75,994	1,006	0	0	0
0	0	0	170,000	167,154	2,846	0	0	0
248,829	187,551	61,278	254,000	248,586	5,414	720,266	538,576	181,690
(56,984)	(6,811)	50,173	11,019	31,065	20,046	(214,626)	(96,386)	(118,240)
0	0	0	0	0	0	2,400	2,400	0
0	0	0	0	0	0	0	0	0
0	19,767	19,767	0	0	0	0	8,805	8,805
3,845	3,845	0	0	0	0	17,600	17,600	0
0	0	0	0	0	0	(50,226)	(50,226)	0
(24,670)	(24,288)	382	0	0	0	(28,500)	0	28,500
0	0	0	0	0	0	0	0	0
(20,825)	(676)	20,149	0	0	0	(58,726)	(21,421)	37,305
(77,809)	(7,487)	70,322	11,019	31,065	20,046	(273,352)	(117,807)	155,545
61,988	61,988	0	79,053	79,053	0	300,245	300,245	0
5,504	5,504	0	0	0	0	30,700	30,700	0
(\$10,317)	\$60,005	\$70,322	\$90,072	\$110,118	\$20,046	\$57,593	\$213,138	\$155,545

**COMBINED STATEMENT OF REVENUES, EXPENSES  
AND CHANGES IN RETAINED EARNINGS  
PROPRIETARY FUND TYPES  
FOR THE YEAR ENDED JUNE 30, 1999**

	<b>Proprietary Fund Types</b>		<b>Totals (Memorandum)</b>
	<b>Enterprise</b>	<b>Internal Service</b>	
<b>Operating Revenues:</b>			
Sales	\$237,810	\$0	\$237,810
<b>Total Operating Revenues</b>	<u>237,810</u>	<u>0</u>	<u>237,810</u>
<b>Operating Expenses:</b>			
Salaries	95,212	0	95,212
Fringe Benefits	18,809	0	18,809
Purchased Services	2,439	0	2,439
Materials and Supplies	156,626	0	156,626
Depreciation	5,521	0	5,521
<b>Total Operating Expenses</b>	<u>278,607</u>	<u>0</u>	<u>278,607</u>
<b>Operating Income (Loss)</b>	<u>(40,797)</u>	<u>0</u>	<u>(40,797)</u>
<b>Non-Operating Revenues and Expenses:</b>			
Federal Donated Commodities	23,831	0	23,831
Interest	3,205	0	3,205
Federal and State Subsidies	25,503	0	25,503
<b>Total Non-Operating Revenues and Expenses</b>	<u>52,539</u>	<u>0</u>	<u>52,539</u>
<b>Net Income</b>	<u>11,742</u>	<u>0</u>	<u>11,742</u>
Retained Earnings at Beginning of Year	69,504	755	70,259
<b>Retained Earnings at End of Year</b>	<u>81,246</u>	<u>755</u>	<u>82,001</u>
Contributed Capital at Beginning of Year	61,562	0	61,562
<b>Contributed Capital at End of Year</b>	<u>61,562</u>	<u>0</u>	<u>61,562</u>
<b>Total Fund Equity at End of Year</b>	<u>\$142,808</u>	<u>\$755</u>	<u>\$143,563</u>

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

**COMBINED STATEMENT OF CASH FLOWS  
 PROPRIETARY FUND TYPES  
 FOR THE YEAR ENDED JUNE 30, 1999**

	<b>Proprietary Fund Types</b>		<b>Totals Memorandum Only</b>
	<b>Enterprise</b>	<b>Internal Service</b>	
<b>Increase/(Decrease) in Cash &amp; Cash Equivalents</b>			
<b>Cash Flows from Operating Activities:</b>			
Cash Received from Sales	\$237,810	\$0	\$237,810
Cash Pmts. to Suppliers for Goods & Service	(148,401)	0	(148,401)
Cash Payments for Contract Services	(2,439)	0	(2,439)
Cash Payments for Employee Services	(87,700)	0	(87,700)
Cash Payments for Employee Benefits	(23,665)	0	(23,665)
Net Cash Provided by (Used for) Operating Activities	<u>(24,395)</u>	<u>0</u>	<u>(24,395)</u>
<b>Cash Flows from Noncapital Financing Activities:</b>			
Operating Grants Received	25,503	0	25,503
Advances In	24,100	0	24,100
Advances Out	(26,000)	0	(26,000)
Net Cash Provided by (Used for) Noncapital Financing Activities	<u>23,603</u>	<u>0</u>	<u>23,603</u>
<b>Cash Flows from Investing Activities:</b>			
Interest on Investments	3,205	0	3,205
Net Cash Provided by (Used for) Investing Activities	<u>3,205</u>	<u>0</u>	<u>3,205</u>
Net Increase (Decrease) in Cash and Cash Equivalents	2,413	0	2,413
Cash & Cash Equivalents at Beginning of Year	121,282	755	122,037
<b>Cash &amp; Cash Equivalents at End of Year</b>	<u>\$123,695</u>	<u>\$755</u>	<u>\$124,450</u>
<b>Reconciliation of Operating Loss to Net Cash Provided by (Used for) Operating Activities:</b>			
<b>Operating Loss</b>	(\$40,797)	\$0	(\$40,797)
<b>Adjustments to Reconcile Operating Loss To Net Cash Provided by (Used for) Operating Activities:</b>			
Depreciation	5,521	0	5,521
Donated Commodities	23,831	0	23,831
<b>(Increase) Decrease in Assets:</b>			
Material and Supplies Inventory	1,136	0	1,136
<b>Increase (Decrease) in Liabilities:</b>			
Compensated Absences Payable	6,201	0	6,201
Intergovernmental Payable	(5,282)	0	(5,282)
Deferred Revenue	(699)	0	(699)
Accounts Payable	(16,043)	0	(16,043)
Accrued Wages and Benefits	1,737	0	1,737
Total Adjustments	<u>16,402</u>	<u>0</u>	<u>16,402</u>
<b>Net Cash Provided by (Used for) Operating Activities</b>	<u>(\$24,395)</u>	<u>\$0</u>	<u>(\$24,395)</u>

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

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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 1999**

**1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY**

The Marion Local School District (the "School District") is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The School District operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four year terms. The School District provides educational services as authorized by state statute and/or federal guidelines.

The School District was established in 1955 through the consolidation of existing land areas and school districts. The School District serves an area of approximately 91 square miles. It is located in Mercer County, and includes the Village of Maria Stein, Osgood, Chickasaw, St. Rose, Cassella, and St. Sebastian. The School District is the 500th largest in the State of Ohio (among 612 school districts) in terms of enrollment. It is staffed by 33 non-certificated employees and 60 certificated full-time teaching personnel who provide services to 973 students and other community members. The School District currently operates 2 instructional buildings.

**Reporting Entity**

The reporting entity is comprised of the primary government, component units, and other organizations that are included to insure that the financial statements of the School District are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the School District. For Marion Local School District, this includes general operations, food service, and student related activities of the School District.

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt, or the levying of taxes. The School District does not have any component units.

The School District is associated with three jointly government organizations and two insurance pools. These organizations include the Mercer County Local Professional Development Committee, the West Central Ohio Regional Professional Development Center, the Northwest Ohio Area Computer Services Cooperative, the Accordia Workers' Compensation Group Rating Program, and the Mercer-Auglaize Employee Benefit Trust. These organizations are presented in Notes 16 and 17 to the general purpose financial statements.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Marion Local School District have been prepared in conformity with generally accepted accounting principles (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 School District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its proprietary activities provided they do not conflict with or contradict GASB pronouncements. The more significant of the School District's accounting policies are described below.

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 1999  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**A. Basis Of Presentation - Fund Accounting**

The School District uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain School District functions or activities.

A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special restrictions or limitations. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities not recorded in the funds because they do not directly affect net available expendable resources.

For financial statement presentation purposes, the various funds of the School District are grouped into the following generic fund types under the broad fund categories governmental, proprietary, and fiduciary.

**Governmental Fund Types**

Governmental funds are those through which most governmental functions of the School District are financed. The acquisition, use, and balances of the School District's expendable financial resources and the related current liabilities (except those accounted for in proprietary funds) are accounted for through governmental funds. The following are the School District's governmental fund types:

**General Fund** - The General Fund is the operating fund of the School District and is used to account for all financial resources except those required to be accounted for in another fund. The General Fund balance is available to the School District for any purpose provided it is expended or transferred according to the general laws of Ohio.

**Special Revenue Funds** - Special revenue funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditure for specified purposes.

**Debt Service Funds** - The debt service funds are used to account for the accumulation of resources for, and the payment of, general long-term obligation principal, interest, and related costs.

**Capital Projects Funds** - The capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

**Proprietary Fund Types**

Proprietary funds are used to account for the School District's ongoing activities, which are similar to those found in the private sector. The following are the School District's proprietary fund types:

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 1999  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**A. Basis Of Presentation - Fund Accounting (Continued)**

**Enterprise Funds** - Enterprise funds are used to account for School District activities that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

**Internal Service Fund** - The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the School District on a cost reimbursement basis.

**Fiduciary Fund Types**

Fiduciary funds are used to account for assets held by the School District in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The School District's fiduciary funds include agency funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

**Account Groups**

To make a clear distinction between fixed assets related to specific funds and those of general government, and between long-term liabilities related to specific funds and those of a general nature, the following account groups are used:

**General Fixed Assets Account Group** - This account group is established to account for all fixed assets of the School District, other than those accounted for in the proprietary funds.

**General Long-Term Obligations Account Group** - This account group is established to account for all long-term obligations of the School District except those accounted for in the proprietary funds.

**B. Measurement Focus and Basis of Accounting**

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types and expendable trust funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into retained earning components. Proprietary fund operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 1999  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**B. Measurement Focus and Basis of Accounting (Continued)**

The modified accrual basis of accounting is followed for the governmental, expendable trust, and agency funds. Under this basis, revenues are recognized in the accounting period when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current fiscal year or soon enough thereafter to be used to pay liabilities of the current fiscal year. The available period for the School District is sixty days after fiscal year end.

In applying the susceptible to accrual concept under the modified accrual basis, the following revenue sources are deemed both measurable and available: interest, tuition, grants, and student fees.

The School District reports deferred revenues on its combined balance sheet. Deferred revenues arise when a potential revenue does not meet both the measurable and available criteria for recognition in the current period. In the subsequent period, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized. Property taxes measurable as of June 30, 1999, and delinquent property taxes, whose availability is indeterminable and which are intended to finance fiscal year 2000 operations, have been recorded as deferred revenue.

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

The accrual basis of accounting is utilized for reporting purposes by the proprietary fund type. Revenues are recognized in the accounting period in which they are earned, and expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported on the operating statement as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as deferred revenue.

**C. Budgetary Process**

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 primary level of budgetary control is at the object level within each function. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

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

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 1999  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. Budgetary Process (Continued)**

**Tax Budget**

Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The express purpose of this budget document is to reflect the need for existing (or increased) tax rates.

By no later than January 20, the Board-adopted budget is filed with the Mercer County Budget Commission for rate determination.

**Estimated Resources**

Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the County Budget Commission and receives the commission's certificate of estimated resources which states the projected revenue of each fund. Prior to June 30, the School 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 School District Treasurer. The amounts reported in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 1999.

**Appropriations**

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

The Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources. During the year, several supplemental appropriations were legally enacted; however, none of these amendments were significant.

The budget figures, which appear in the statements of budgetary comparisons, represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds other than agency funds, consistent with statutory provisions.

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 1999  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. Budgetary Process (Continued)**

**Encumbrances**

As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. Expenditures plus encumbrances may not legally exceed appropriations. On the GAAP basis, encumbrances outstanding at fiscal year end are reported as a reservation of fund balance for subsequent-year expenditures for governmental funds.

**Lapsing of Appropriations**

At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriation. Encumbered appropriations are carried forward to the succeeding fiscal year and are not reappropriated.

**D. Cash and Cash Equivalents**

To improve cash management, all cash received by the School District is pooled in a central bank account. Monies for all funds, including proprietary funds, are maintained in this account or temporarily used to purchase short term investments. Individual fund integrity is maintained through School District records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the balance sheet. During fiscal year 1999, investments were limited to STAR Ohio and certificate of deposits.

Nonparticipating investment contracts, such as non-negotiable certificates of deposit, are reported at cost.

The District has invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during fiscal year 1999. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 1999.

Following Ohio statutes, 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 1999 amounted to \$125,367 which includes \$16,934 assigned from other School District funds.

For purposes of the combined statement of cash flows and for presentation on the combined balance sheet, investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are considered to be cash equivalents.

**E. Inventory**

Inventories of proprietary funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. Inventories of proprietary funds consist of donated food, purchased food, and school supplies held for resale and are expensed when used.

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 1999  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**F. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 1999 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

**G. Fixed Assets and Depreciation**

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction costs are reflected as expenditures in governmental funds, and the related assets are reported in the general fixed assets account group. Fixed assets utilized in the proprietary funds are capitalized in the fund. All fixed assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of five hundred dollars.

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 capitalized. Improvements are capitalized. Improvements to fund fixed assets are depreciated over the remaining useful lives of the related fixed assets. The District does not capitalize infrastructure.

Assets in the general fixed assets account group are not depreciated. Depreciation of furniture and equipment in the enterprise funds is computed using the straight-line method over an estimated useful life of five to twenty years.

**H. Intergovernmental Revenues**

For governmental funds, intergovernmental revenues, such as entitlements and grants awarded on a non-reimbursement basis, are recorded as receivables and revenues when measurable and available. Reimbursement type grants are recorded as receivables and revenues when the related expenditures are incurred. Other than commodities, grants and entitlements for proprietary fund operations are recognized as non-operating revenues in the accounting period in which they are earned and become measurable.

The School District currently participates in several State and Federal programs, categorized as follows:

**Entitlements**

**General Fund**

- State Foundation Program
- State Property Tax Relief
- School Bus Purchase Reimbursement

**Non-Reimbursable Grants**

**Special Revenue Funds**

- Education Management Information Systems
- Title I
- Title VI
- Drug Free School Grant
- Eisenhower Grant
- Professional Development Block Grant
- Vocational Education Equipment
- Textbook/Instructional Materials Subsidy
- Promotion of the Humanities

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 1999  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**H. Intergovernmental Revenues (Continued)**

**Capital Projects Funds**

School Net  
School Net Plus  
Technology Equity  
Emergency School Building Repair

**Reimbursable Grants**

**General Fund**

Driver Education

**Proprietary Funds**

National School Lunch Program  
Government Donated Commodities

Grants and entitlements amounted to approximately 60 percent of the School District's operating revenue during the 1999 fiscal year.

**I. Interfund Assets/Liabilities**

Short-term interfund loans are classified as "interfund receivables" and "interfund payables". Long-term interfund loans are classified as "advances to/from other funds" and are equally offset by a fund balance reserve account which indicates that they do not constitute available expendable resources since they are not a component of net current assets.

**J. Compensated Absences**

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the School District will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the School District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the School District's termination policy.

For governmental funds, the School District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service. The School District records a liability for accumulated unused sick leave for employees after 20 years of current service with the School District, or after 15 years of service and at least 45 years of age, or after 10 years of service and at least 50 years of age. The current portion of unpaid compensated absences is the amount expected to be paid using available expendable 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 remainder is reported in the general long-term obligations account group. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 1999  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, compensated absences and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the general long-term obligations account group to the extent that they will not be paid with current available expendable financial resources. Bonds and long-term loans are reported as a liability of the general long-term obligations account group until due.

Under Ohio law, a debt service fund must be created and used for the payment of tax and revenue anticipation notes. Generally accepted accounting principles require the reporting of the liability in the funds that received the proceeds. To comply with GAAP reporting requirements, the School District's debt service fund has been split among the appropriate funds. Debt service fund resources used to pay both principal and interest have also been allocated accordingly.

**L. Interfund Transactions**

Quasi-external transactions are accounted for as revenues and expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

**M. Restricted Assets**

Restricted assets in the general fund represent cash and cash equivalents whose use is limited by legal requirements. Restricted assets include unexpended revenues restricted for the purchase of buses, and amounts required by statute to be set-aside by the School District for the purchase of textbooks, for the acquisition or construction of capital assets and to create a reserve for budget stabilization. See Note 19 for the calculation of the year-end restricted asset balance and the corresponding fund balance reserves.

**N. Fund Balance Reserves and Designations**

The School District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity, which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, property taxes, budget stabilization, textbook purchases, capital improvements, school bus purchases, and debt service.

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute. The reserve for budget stabilization represents money required to be set-aside by statute to protect against cyclical changes in revenues and expenditures.

The reserve for capital improvements and textbook and instructional materials represents the unspent amount statutorily required to be set-aside.

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 1999  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**N. Fund Balance Reserves and Designations (Continued)**

The School District designates a portion of fund equity to indicate tentative planned expenditures of financial resources. A fund balance designation has been established for the revenues set-aside for textbooks and instructional materials and capital improvements that exceeded the statutorily required amount.

**O. Use of Estimates**

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

**P. Total Columns on General Purpose Financial Statements**

Total columns on the general purpose financial statements are captioned "Totals - (Memorandum Only)" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or cash flows in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

**3. ACCOUNTABILITY**

**Accountability**

At June 30, 1999, the Eisenhower Grant, Drug Free School Grant, School Building Repair, and the Uniform School Supplies Funds had deficit fund balances of \$2,515, \$663, \$33,145, and \$8,457, which was created by the application of generally accepted accounting principles. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

**4. BUDGETARY BASIS OF ACCOUNTING**

While the School District is reporting financial position, results of operations, and changes in fund balances 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, disbursements, and encumbrances. The Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual-All Governmental Fund Types are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are that:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types (GAAP basis).

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 1999  
(Continued)**

**4. BUDGETARY BASIS OF ACCOUNTING (Continued)**

The following tables summarize the adjustments necessary to reconcile the GAAP and budgetary basis statements by fund type.

**Excess (Deficiency) of Revenues and Other Financing Sources  
Over (Under) Expenditures and Other Financing Uses  
All Governmental Fund Types**

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>
Budget Basis	\$344,001	(\$7,487)	\$31,065	(\$117,807)
Net Adjustment for Revenue Accruals	(3,250)	39,996	(3,244)	(1,354)
Net Adjustment for Expenditure Accruals	26,416	(32,145)	0	0
Net Adjustment for Other Sources/Uses	2,385	4,520	0	(8,805)
Adjustment for Encumbrances	<u>86,824</u>	<u>10,949</u>	<u>0</u>	<u>0</u>
GAAP Basis	<u><u>\$456,376</u></u>	<u><u>\$15,833</u></u>	<u><u>\$27,821</u></u>	<u><u>(\$127,966)</u></u>

**5. DEPOSITS AND INVESTMENTS**

The Treasurer is responsible for selecting depositories and investing funds. State statutes classify monies held by the School 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 School District Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

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

Interim 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.

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

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

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

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 1999  
(Continued)**

**5. 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 any securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and to be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed twenty-five percent of the interim moneys available for investment at any one time; and
8. Under limited circumstances, corporate debt interests rates in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse purchase 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 School 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.

Funds invested by fiscal agents are determined by trust agreements and bond indentures. Like the cash invested by the District Treasurer, eligible investments include U.S. government obligations, U.S. government agencies, and certificate of deposit.

Any public depository, at the time it receives a District deposit or investment in a certificate of deposit, is required to pledge to the investing authority as collateral eligible securities of aggregate market value that, when added to the portion of the deposit insured by the Federal Deposit Insurance Corporation or the Savings Association Fund, equals or exceeds the amount of District funds deposited.

A public depository may at its option pledge a single pool of eligible securities to secure the repayment of all public monies held by the depository. The pool of securities so pledged must have a current market value of 110 percent of all public monies on deposit with the depository including the amount covered by federal insurance.

At fiscal year end, the School District had \$450 in undeposited cash on hand which is included on the balance sheet of the School District as part of "equity in pooled cash and cash equivalents".

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 1999  
(Continued)**

**5. DEPOSITS AND INVESTMENTS (Continued)**

The following information classifies deposits and investments by categories of risk as defined in GASB Statement #3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements".

**Deposits** - At fiscal year end, the carrying amount of the School District's deposits was \$1,601,956 and the bank balance was \$1,781,821. Of the bank balance \$400,000 was covered by federal depository insurance. The remaining amounts, \$1,381,821, were uninsured and uncollateralized. Although the securities were held by the pledging financial institutions trust departments in the School District's name and all State statutory requirements for the investment of money had been followed, noncompliance with federal requirement could potentially subject the School District to a successful claim by the Federal Depository Insurance Corporation.

**Investments** - The School District's investments are categorized to give an indication of the level of risk assumed by the School District at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by the School District or its agent in the School District's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the School District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the School District's name. The School District investments of \$1,124,260 in STAR Ohio, an investment pool operated by the Ohio State Treasurer, are unclassified investments since they are not evidenced by securities that exist in physical or book entry form.

	Carrying Value	Fair Value
STAR Ohio	\$1,124,260	\$1,124,260

The classification of cash, cash equivalents and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9. Funds included within the Treasurer district-wide cash management pool, which are used essentially as demand deposit accounts for the various School District funds, and investments with an original maturity of three months or less are treated as cash and cash equivalents. The classification of cash and cash equivalents (deposits) and investments for purposes of the note above is based on criteria set forth in GASB Statement No. 3.

A reconciliation between the classifications of cash and investments on the combined financial statements and the classifications per GASB 3 is as follows:

	Cash and Cash	
	Equivalents / Deposits	Investments
GASB Statement 9	\$2,726,666	\$ 0
Cash on Hand	(450)	
Investments	(1,124,260)	1,124,260
GASB Statement 3	\$1,601,956	\$1,124,260

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 1999  
(Continued)**

**6. PROPERTY TAXES**

Property taxes are levied and assessed on a calendar year basis. Second half distributions occur in a new fiscal year. Property taxes include amounts levied against all real, public utility, and tangible personal (used in business) property located in the School District. Real property taxes are levied after April 1 on the assessed value listed as of the prior January 1, the lien date. Public utility property taxes attached as a lien on December 31 of the prior year, were levied April 1 and are collected with real property taxes. Assessed values for real property taxes are established by State law at 35 percent of appraised market value. All property is required to be revalued every six years. Public utility property taxes are assessed on tangible personal property at 88 percent of true value (with certain exceptions) and on real property at 35 percent of true value. Tangible personal property taxes are levied after April 1 on the value listed as of December 31 of the current year. Tangible personal property assessments are 25 percent of true value.

Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20.

The School District receives property taxes from Mercer County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 1999 are available to finance fiscal year 1999 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents delinquent taxes outstanding and real property, tangible personal property, and public utility taxes, which became measurable as of June 30, 1999. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is intended to finance current fiscal year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance at June 30, 1999, was \$29,672 in the General Fund, \$1,164 in the Bond Retirement Debt Service Fund and \$296 in the Permanent Improvement Capital Projects Fund.

The assessed values upon which fiscal year 1999 taxes were collected are:

	<b>1998 Second- Half Collections</b>		<b>1999 First- Half Collections</b>	
	<b>Amount</b>	<b>Percent</b>	<b>Amount</b>	<b>Percent</b>
Agricultural/Residential and Other Real Estate	\$41,636,660	92%	\$42,840,580	92%
Public Utility	2,375,720	5%	2,483,730	5%
Tangible Personal Property	1,285,820	3%	1,455,500	3%
<b>Total Assessed Value</b>	<b>\$45,298,200</b>	<b>100%</b>	<b>\$46,779,810</b>	<b>100%</b>
Tax rate per \$1,000 of assessed valuation	\$38.39		\$38.19	

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 1999  
(Continued)**

**7. RECEIVABLES**

Receivables at June 30, 1999, consisted of property taxes. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes.

A summary of the principal items of receivables follows:

	<b>Amounts</b>
General Fund Taxes	\$1,376,234
Debt Service Taxes	246,728
Capital Project Funds Taxes	50,728
Total Receivables	<b>\$1,673,690</b>

**8. FIXED ASSETS**

A summary of the enterprise funds' fixed assets at June 30, 1999, follows:

Furniture and Equipment	\$181,343
Less: Accumulated Depreciation	(99,632)
Net Fixed Assets	<b>\$81,711</b>

A summary of the changes in general fixed assets during fiscal year 1999 follows:

<b>Asset Category</b>	<b>Balance at 6/30/98</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance at 6/30/99</b>
Land and Improvements	\$ 362,013	\$ 65,000	\$ 0	\$ 427,013
Buildings	7,093,293	463,876	0	7,557,169
Furniture and Equipment	1,379,724	160,327	139,348	1,400,703
Vehicles	641,580	62,398	39,520	664,458
Totals	<b>\$9,476,610</b>	<b>\$751,601</b>	<b>\$178,868</b>	<b>\$10,049,343</b>

**9. RISK MANAGEMENT**

The School District is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Coverages provided are as follows:

<b>Type of Coverage</b>	<b>Insurance Carrier</b>	<b>Deductible</b>	<b>Liability Limit</b>
Building and Contents	Indiana Insurance	\$ 500	\$9,908,537
Automobile Liability	Auto Owners Insurance	0	1,000,000
Uninsured Motorists	Auto Owners Insurance	0	1,000,000
General Liability			
Per occurrence	Nationwide Wausau	1,000	1,000,000
Per Year	Insurance	1,000	5,000,000

Settled claims have not exceeded this commercial coverage in any of the past three years.

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 1999  
(Continued)**

**10. DEFINED BENEFIT PENSION PLANS**

**A. School Employees Retirement System**

The School District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement benefits and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State statute per 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, 45 North Fourth Street, Columbus, Ohio 43215.

Plan members are required to contribute 9 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current rate School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 1999, 7.7 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 1998, 9.02 percent was the portion to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The School District's contributions for pension obligations to SERS for the fiscal years ended June 30, 1999, 1998, and 1997 were \$39,274, \$45,915, and \$47,490, respectively; 86 percent has been contributed for fiscal year 1999 and 100 percent for the fiscal years 1998 and 1997. \$5,630 representing the unpaid contribution for fiscal year 1999, is recorded as a liability within the respective funds and the general long-term obligations account group.

**B. State Teachers Retirement System**

The School District participates in the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information for STRS. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

For the fiscal year ended June 30, 1999, plan members are required to contribute 9.3 percent of their annual covered salary. The School District was required to contribute 14 percent; 6 percent was the portion used to fund pension obligations. For fiscal year 1998, the portion used to fund pension obligations was 10.5 percent. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The School District's contribution for pension obligations to STRS for the fiscal years ended June 30, 1999, 1998, and 1997 were \$147,810, \$235,338, and \$261,570, respectively; 83 percent has been contributed for fiscal year 1999 and 100 percent for the fiscal years 1998 and 1997. \$25,054 representing the unpaid contribution for fiscal year 1999, is recorded as a liability within the respective funds.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 1999, all members of the Board of Education have elected social security. The Board's liability is 6.2 percent of wages paid.

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 1999  
(Continued)**

**11. POSTEMPLOYMENT BENEFITS**

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

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year ended June 30, 1999, the STRS Board allocated employer contributions equal to 8 percent of covered payroll to the Health Care Reserve Fund, an increase from 3.5 percent for fiscal year 1998. For the School District, this amount equaled \$197,081 during the 1999 fiscal year.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$2,156 million at June 30, 1998. For the year ended June 30, 1998, net health care costs paid by STRS were \$219,224,000 and STRS had 91,999 eligible benefit recipients.

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For this fiscal year ended June 30, 1999, employer contributions to fund health care benefits were 6.30 percent of covered payroll; an increase from 4.98 percent for fiscal year 1998. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 1999, the minimum pay has been established at \$12,400. For the School District, the amount to fund health care benefits, including surcharge, equaled \$61,283 during the 1999 fiscal year.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 125 percent of annual health care expenses. Expense for health care at June 30, 1998, was \$111,900,575 and the target level was \$139.9 million. At June 30, 1998, SERS had net assets available for payment of health care benefits of \$160.3 million. SERS has approximately 50,000 participants currently receiving health care benefits.

**12. EMPLOYEE BENEFITS**

**A. Compensated Absences**

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

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 1999  
(Continued)**

**12. EMPLOYEE BENEFITS (Combined)**

**A. Compensated Absences (Combined)**

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 192 days for all employees. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of 48 days.

**B. Life Insurance**

The School District provides life insurance and accidental death and dismemberment insurance to most employees through CoreSource.

**13. LONG-TERM OBLIGATIONS**

The changes in the School District's long-term obligations during fiscal year 1999 were as follows:

	<b>Balance at 07/01/98</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance at 06/30/99</b>
General Obligation Bonds Interest Rate: 3.4% - 5.375%	\$2,845,000	\$ 0	\$65,000	\$2,780,000
Asbestos Loan - Interest Free	136,233	0	10,994	125,239
Long-term bonds and notes	\$2,981,233	\$ 0	\$75,994	\$2,905,239
Pension Obligation	32,341	0	6,384	25,957
Compensated Absences	234,904	40,470	0	275,374
<b>Total Long-Term Obligations</b>	<b>\$3,248,478</b>	<b>\$40,470</b>	<b>\$82,378</b>	<b>\$3,206,570</b>

**General Obligation Bonds** - On March 1, 1997, the Marion Local School District issued \$2,940,000 in voted general obligation bonds for building construction. The bonds were issued for a twenty-four year period with final maturity at December 1, 2019. The bonds will be retired from the debt service fund.

**EPA Asbestos Loan** - On January 7, 1993, the Marion Local School District obtained a loan in the amount of \$158,221 for the purpose of providing asbestos removal for the Marion Local School District. The loan was issued for an eighteen fiscal year period with final maturity during fiscal year 2010. The loan will be retired from the debt service fund.

Compensated absences and the pension obligation will be paid from the fund from which the employees' salaries are paid.

The School District's voted legal debt margin was \$1,304,944 with an unvoted debt margin of \$467,798 at June 30, 1999.

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 1999  
(Continued)**

**13. LONG-TERM OBLIGATIONS (Continued)**

Principal and interest requirements to retire general obligation debt, including notes outstanding at June 30, 1999, are as follows:

<u>Fiscal year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2000	85,993	165,854	251,847
2001	95,994	162,629	258,623
2002	105,994	158,846	264,840
2003	115,994	154,524	270,518
2004	130,994	149,641	280,635
2005-2009	639,969	612,986	1,252,955
2010-2014	675,301	393,480	1,068,781
2015-2019	855,000	196,456	1,051,456
2020	200,000	10,750	210,750
Total	<u>\$ 2,905,239</u>	<u>\$2,005,166</u>	<u>\$4,910,405</u>

**14. INTERFUND ACTIVITY**

As of June 30, 1999, receivables and payables that resulted from various interfund transactions were as follows:

<u>Fund Type</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General Fund	\$66,980	\$ 0
Special Revenue Funds	0	5,575
Capital Projects Funds	0	37,305
Enterprise Funds	<u>0</u>	<u>24,100</u>
Total	<u>\$66,980</u>	<u>\$66,980</u>

**15. SEGMENT INFORMATION FOR ENTERPRISE FUNDS**

The School District maintains two enterprise funds to account for the operations of food service and uniform school supplies. The table below reflects the more significant financial data relating to the enterprise funds of the Marion Local School District as of and for the fiscal year ended June 30, 1999.

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 1999  
(Continued)**

**15. SEGMENT INFORMATION FOR ENTERPRISE FUNDS (Continued)**

	<b>Food Service</b>	<b>Uniform School Supplies</b>	<b>Total Enterprise Funds</b>
Operating Revenues	\$204,502	\$33,308	\$237,810
Operating Expenditures Before Before Depreciation	245,216	27,870	273,086
Depreciation	5,521	0	5,521
Operating Income (Loss)	(46,235)	5,438	(40,797)
Donated Commodities	23,831	0	23,831
Operating Grants	25,503	0	25,503
Interest	3,205	0	3,205
Net Income (Loss)	6,304	5,438	11,742
Net Working Capital	80,609	(8,457)	72,152
Total Assets	197,229	15,643	212,872
Total Liabilities	45,964	24,100	70,064
Total Equity	151,265	(8,457)	142,808
Encumbrances Outstanding at June 30, 1999 (Budget)	13,658	14,633	28,291

**16. JOINTLY GOVERNED ORGANIZATIONS**

**A. Mercer County Local Professional Development Committee**

The School District is a participant in the Mercer County Local Professional Development Committee (the Committee) which is a regional council of governments established to provide professional educator license renewal standards and procedures. The Committee is governed by an 11 member board made up of six teachers, two building principals, one superintendent, and two members employed by the Mercer County Educational Service Center with terms of two years. The degree of control exercised by any participating school district is limited to its representation on the Board. The Committee is an association of public school districts within the boundaries of Mercer County. Financial information can be obtained from the Mercer County Educational Service Center, 441 East Market Street, Marion, Ohio 45822.

**B. Northwest Ohio Area Computer Services Cooperative (NOACSC)**

The Northwest Ohio Area Computer Services Cooperative (NOACSC) is a jointly governed organization among forty-seven school districts. The jointly governed organization was 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. Each of the governments of these schools supports NOACSC based upon a per pupil charge dependent upon the software package utilized.

The NOACSC Assembly consists of a representative from each participating school district and the superintendent from the fiscal agent. The Board of Directors consists of the superintendent from the fiscal agent, the two Assembly members from each county in which participating school districts are located. The degree of control exercised by any participating school district is limited to its representation of the Board. Financial information can be obtained by contacting Michael Wildermuth, who serves as Director, at 645 South Main Street, Lima, Ohio 45804.

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 1999  
(Continued)**

**16. JOINTLY GOVERNED ORGANIZATIONS (Continued)**

**C. West Central Ohio Professional Development Center**

The Center is a jointly governed organization among the school districts located in Allen, Auglaize, Hancock, Hardin, Mercer, Paulding, Putnam and Van Wert counties. The jointly governed organization was formed for the purpose of establishing an articulated, regional structure for professional development, in which school districts, the business community, higher education and other groups cooperatively plan and implement effective professional development activities than are tied directly to school improvement, and in particular, to improvements in instructional programs.

The Center is governed by a governing board made up of fifty-two representatives of the participating school districts, the business community, and two institutions of higher learning whose term rotates every two years. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information may be obtained by contacting Dorothy Oldham, Treasurer at the Hancock County Educational Service Center, 604 Lima Avenue, Findlay, Ohio 45840-3087.

**17. INSURANCE PURCHASING POOL**

**A. Accordia Workers' Compensation Group Rating Plan**

The School District participates in the Accordia Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by a three member Board of directors consisting of the President, the President-Elect and the Immediate Past President of the OSBA. The Executive Director or his designee serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

**B. Mercer-Auglaize Employee Benefit Trust**

The Mercer-Auglaize Employee Benefit Trust (the Plan) is a public entity shared risk pool consisting of eight local school districts, two city school districts, one exempted village school district, and two educational service centers. The Plan is organized as a Voluntary Employee Benefit Association under Section 501(c)(9) of the Internal Revenue Code and provides sick, accident and other benefits to the employees of the participating school districts. Each participating school district's superintendent is appointed to a Board of Trustees which advises the Trustee, Mid-American Bank, concerning aspects of the administration of the Trust.

**18. CONTINGENCIES**

**Grants**

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure 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 General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 1999.

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 1999  
(Continued)**

**19. SET-ASIDE CALCULATIONS AND FUND RESERVES**

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

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

	<u>Textbooks</u>	<u>Capital Acquisition</u>	<u>Budget Stabilization</u>	<u>Totals</u>
Set-aside Cash Balance as of June 30, 1998	\$0	\$0	\$16,607	\$16,607
Current Year Set-aside Requirement	74,874	74,874	37,711	187,459
Current Year Offsets	(14,178)	(62,068)	0	(76,246)
Qualifying Disbursements	(53,163)	(6,052)	0	(59,215)
Balance as of June 30, 1999	<u>\$7,533</u>	<u>\$6,754</u>	<u>\$54,318</u>	<u>\$68,605</u>
Cash Balance Carried Forward to FY 2000	<u>\$7,533</u>	<u>\$6,754</u>	<u>\$54,318</u>	<u>\$68,605</u>
Amount restricted for bus purchases				<u>72,019</u>
Total Restricted Cash and Cash Equivalents				<u>\$140,624</u>

**20. SCHOOL FUNDING DECISION**

On March 24, 1997, the Ohio Supreme Court rendered a decision declaring certain portions of the Ohio school funding plan unconstitutional. The Court stayed the effect of its ruling for one year to allow the Ohio General Assembly to design a plan to remedy the perceived defects in that system. Declared unconstitutional was the State's "school foundation program", which provides significant amounts of monetary support to this School District. During the fiscal year ended June 30, 1999, the School District received \$3,175,508 of school foundation support for its general fund.

Since the Supreme Court Ruling, numerous pieces of legislation have been passed by the Ohio General Assembly in an attempt to address the issues identified by the Court. The Court of Common Pleas in Perry County has reviewed the new laws, and in a decision issued on February 26, 1999, determined they are not sufficiently responsive to the constitutional issues raised under the "thorough and efficient" clause of the Ohio Constitution. The State has appealed the decision made by the Court of Common Pleas to the Ohio Supreme Court. At this time, the Ohio Supreme Court has not rendered an opinion on this issue. The decision of the Court of Common Pleas in the Perry County has been stayed by the Ohio Supreme Court, and, as such, school districts are still operating under the laws that the Common Pleas Court declared unconstitutional.

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

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 1999  
(Continued)**

**21. YEAR 2000 ISSUE**

The Year 2000 Issue is the result of shortcomings in many electronic data processing systems and other electronic equipment that may adversely affect the government's operations.

Marion Local School District identified its mission-critical computer systems and other electronic equipment that may be affected by the Year 2000 Issue and that are necessary to conducting District operations. All of these systems were remediated, validated and tested, as needed, prior to June 30, 1999.

To the best of management's knowledge and belief, as of February 11, 2000, the government experienced no significant interruption of mission-critical operations or services related to the Year 2000 Issue. However, because of the unprecedented nature of the Year 2000 Issue, matters may yet arise, and parties with whom the District does business may also experience Year 2000 readiness issues that are as yet, unknown.

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STATE OF OHIO  
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

One First National Plaza  
130 West Second Street  
Suite 2040  
Dayton, Ohio 45402  
Telephone 937-285-6677  
800-443-9274  
Facsimile 937-285-6688  
www.auditor.state.oh.us

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

Marion Local School District  
Mercer County  
1901 State Route 716  
Maria Stein, Ohio 45860

To the Board of Education:

We have audited the financial statements of the Marion Local School District (the District) as of and for the year ended June 30, 1999, and have issued our report thereon dated February 11, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the District in a separate letter dated February 11, 2000.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting and its operating that we consider to be reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings as item 1999-10254-001.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness. We also noted other matters involving the internal control over financial reporting, that do not require inclusion in this report, that we reported to management of the District in a separate letter dated February 11, 2000.

This report is intended for the information and use of the audit committee, Board of Education, and management and is not intended to be and should not be used by anyone other than these specified parties.

**Jim Petro**  
Auditor of State

February 11, 2000

**SCHEDULE OF FINDINGS  
FOR THE FISCAL YEAR ENDING JUNE 30, 1999**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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Finding Number	1999-10254-001
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**General Fixed Assets**

The following problems were noted during the review of the District's procedures and presentation of General Fixed Assets:

1. The District has a written policy for the General Fixed Assets, however, this policy is not specific regarding step by step procedures to be performed by each employee upon the acquisition or deletion of an asset. The policy does not address all of the costs that need to be considered and included in the asset amount booked (ie: freight, transportation costs, and set-up costs).

Also, similar or "like item" assets were not addressed in the fixed asset policy. Fixed assets were defined in the policy as those assets which have an initial cost equal to or exceeding \$500. Similar or "like item" assets such as computers, chairs, desks, etc., which do not individually meet the District's criteria for a fixed asset, but collectively exceed the fixed asset policy were not addressed. These items were included on the District's General Fixed Asset list.

2. All assets were not tagged as property of the District.
3. When reviewing vouchers to determine if all fixed asset additions were properly posted and included at the correct amount, we noted that numerous additions were not recorded on the fixed asset list and those that were included were not always posted at the correct original cost (i.e net of trade-in, some computers included monitors and others did not, etc.). The District also did not record the serial numbers for the computers.
4. The District prints a pending list of items that were purchased and needs to be added to the fixed asset list. When viewing this list for FY 99, we noted that not all of the items were marked as being added to the fixed asset list.

The problems noted above could lead to difficulties in filing insurance claims, to the misappropriation of property and equipment, and resulted in audit adjustments being made to the general fixed assets so that they were not misstated on the financial statements. To correct the situation and present accurate information in the financial statements, the following procedures should be implemented:

1. Guidelines should be adopted which would outline the following:
  - a. The step-by-step procedures to be followed when adding or deleting an asset to the asset list. Procedures should also be implemented to track equipment as it is moved from room to room.
  - b. The procedures to be used to determine the cost of the item to be booked, taking into consideration all acquisition costs, such as freight, transportation, set-up costs, etc.
  - c. Establish a base amount at which items will be booked in aggregate (like items, that individually do not exceed \$500 but, in aggregate, represent a significant amount to the fixed asset list).
  - d. Implement a procedure for tagging all assets as property of the District.
  - e. Periodic physical observations of assets to determine that the fixed assets lists are accurate.

**SCHEDULE OF FINDINGS  
FOR THE FISCAL YEAR ENDING JUNE 30, 1999  
(Continued)**

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

Finding Number	1999-10254-001 (Continued)
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**General Fixed Assets** (Continued)

- f. At fiscal year end, the individual in charge of fixed assets should compare the total of the District's general journal - Capital Equipment accounts to the total amount of the additions made to the asset list and explain any discrepancies.
  
- 2. All vehicles listed on the fleet insurance policy should be compared to the fixed asset list to verify that all vehicles are recorded and that all vehicles disposed or traded are deleted. At this time, the full serial number should be included on the asset list.
  
- 3. All property should be tagged with District identification numbers and cross-referenced to the fixed asset listing. All items with serial numbers should have those numbers input into the system.
  
- 4. In addition, each teacher should be given a copy of the fixed asset list applicable to their room. Each teacher should then be responsible for performing a physical observation in order to update and determine the accuracy of the list. The results from each room should then be given to the Treasurer's office. The Treasurer's office should then update their fixed asset list.

**SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE FISCAL YEAR ENDING JUNE 30, 1999**

Finding Number	Finding Summary	Fully Corrected	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
1998-10254-001	General Fixed Assets	No	Not corrected, see Finding Number 1999-10254-001





STATE OF OHIO  
OFFICE OF THE AUDITOR  

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JIM PETRO, AUDITOR OF STATE

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

**MARION LOCAL SCHOOL DISTRICT**

**MERCER COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
MARCH 9, 2000**