



Dave Yost • Auditor of State



**MARION CITY SCHOOL DISTRICT  
MARION COUNTY**

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# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

Marion City School District  
Marion County  
420 Presidential Dr. Suite B  
Marion, Ohio 43302

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Marion City School District, Marion County, Ohio (the District), as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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 our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Marion City School District, Marion County, Ohio, as of June 30, 2012, and the respective changes in financial position and where applicable, cash flows, thereof and the budgetary comparison for the General fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 15, 2013, 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 grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements taken as a whole. The federal awards receipts and expenditures schedule provides additional information required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The federal awards receipts and expenditures schedule is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This schedule was subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



**Dave Yost**  
Auditor of State

April 15, 2013

## MARION CITY SCHOOL DISTRICT, OHIO

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### *Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2012*

*Unaudited*

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The discussion and analysis of Marion City School District's financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2012. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the District's financial performance.

### **FINANCIAL HIGHLIGHTS**

Key financial highlights for 2012 are as follows:

- ❑ In total, net assets decreased \$3,109,451. Net assets of governmental activities decreased \$3,137,086, which represents a 3.7% decrease from 2011. Net assets of business-type activities increased \$27,635, a slight increase from 2011.
- ❑ General revenues accounted for \$37,584,497, or 71% of all revenues. Program specific revenues in the form of charges for services and sales and grants and contributions accounted for \$15,486,785 or 29% of total revenues of \$53,071,282.
- ❑ The District had \$54,046,574 in expenses related to governmental activities; only \$13,325,759 of these expenses were offset by program specific charges for services and sales, grants or contributions. General revenues (primarily taxes) of \$37,583,729 were adequate to provide for these programs.
- ❑ Among major funds, the general fund had \$45,037,759 in revenues and \$44,888,410, including transfers out, in expenditures. The general fund's fund balance increased from a balance of \$13,572,689 to an ending balance of \$13,722,038.
- ❑ Net assets of the enterprise fund increased \$27,635.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report consists of two parts – *management's discussion and analysis* and the *basic financial statements*. The basic financial statements include two kinds of statements that present different views of the District:

These statements are as follows:

1. *The Government-Wide Financial Statements* – These statements provide both long-term and short-term information about the District's overall financial status.
2. *The Fund Financial Statements* – These statements focus on individual parts of the District, reporting the District's operations in more detail than the government-wide statements.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

# MARION CITY SCHOOL DISTRICT, OHIO

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*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2012*

*Unaudited*

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## **Government-wide Statements**

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the District's net assets and how they have changed. Net assets (the difference between the District's assets and liabilities) is one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the District you need to consider additional nonfinancial factors such as the property tax base, current property tax laws, student enrollment growth and facility conditions.

The government-wide financial statements of the District are divided into two categories:

- Governmental Activities – Most of the District's programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities.
- Business-Type Activities – These services are provided on a charge for goods or services basis to recover all of the expenses of the goods or services provided. The District's food service fund is reported as business-type activities.

## **Fund Financial Statements**

The fund financial statements provide more detailed information about the District's most significant funds, not the District as a whole. Funds are accounting devices that the District uses to keep track of specific sources of funding and spending for particular purposes.

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

## MARION CITY SCHOOL DISTRICT, OHIO

**Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2012**

**Unaudited**

**Proprietary Funds** – Proprietary funds use the same basis of accounting as business-type activities; therefore, these statements will essentially match.

**Fiduciary Funds** – The District is the trustee, or fiduciary, for various student managed activity programs, various scholarship programs and other items listed as agency and private purpose. It is also responsible for other assets that, due to a trust arrangement can only be used for the trust beneficiaries. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets. We exclude these activities from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

### FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE

The following table provides a summary of the District's net assets for 2012 compared to 2011:

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$30,824,351	\$33,116,846	\$982,067	\$768,921	\$31,806,418	\$33,885,767
Capital assets, Net	79,431,570	79,788,118	7,233,228	7,404,313	86,664,798	87,192,431
Total assets	<u>110,255,921</u>	<u>112,904,964</u>	<u>8,215,295</u>	<u>8,173,234</u>	<u>118,471,216</u>	<u>121,078,198</u>
Long-term Liabilities	15,920,846	15,097,862	59,810	57,938	15,980,656	15,155,800
Current and other liabilities	11,625,546	11,960,487	164,070	151,516	11,789,616	12,112,003
Total liabilities	<u>27,546,392</u>	<u>27,058,349</u>	<u>223,880</u>	<u>209,454</u>	<u>27,770,272</u>	<u>27,267,803</u>
Net assets						
Invested in capital assets, net of related debt	69,457,685	69,932,858	7,233,228	7,404,313	76,690,913	77,337,171
Restricted	1,824,840	5,757,300	0	0	1,824,840	5,757,300
Unrestricted	<u>11,427,004</u>	<u>10,156,457</u>	<u>758,187</u>	<u>559,467</u>	<u>12,185,191</u>	<u>10,715,924</u>
Total net assets	<u><u>\$82,709,529</u></u>	<u><u>\$85,846,615</u></u>	<u><u>\$7,991,415</u></u>	<u><u>\$7,963,780</u></u>	<u><u>\$90,700,944</u></u>	<u><u>\$93,810,395</u></u>

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## **MARION CITY SCHOOL DISTRICT, OHIO**

**Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2012**

**Unaudited**

Changes in Net Assets – The following table shows the changes in net assets for the fiscal year 2012 compared to 2011:

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues						
Program revenues:						
Charges for Services and Sales	\$1,840,103	\$2,837,681	\$337,767	\$364,585	\$2,177,870	\$3,202,266
Operating Grants	11,485,656	11,484,322	1,823,259	1,780,951	13,308,915	13,265,273
Total Program Revenues	<u>13,325,759</u>	<u>14,322,003</u>	<u>2,161,026</u>	<u>2,145,536</u>	<u>15,486,785</u>	<u>16,467,539</u>
General Revenues:						
Property Taxes	9,472,391	9,244,800	0	0	9,472,391	9,244,800
Payment in Lieu of Taxes	84,115	93,519	0	0	84,115	93,519
Intergovernmental, Unrestricted	27,570,303	30,756,194	0	0	27,570,303	30,756,194
Other	456,920	443,068	768	12,943	457,688	456,011
Total General Revenues	<u>37,583,729</u>	<u>40,537,581</u>	<u>768</u>	<u>12,943</u>	<u>37,584,497</u>	<u>40,550,524</u>
Total Revenues	<u>50,909,488</u>	<u>54,859,584</u>	<u>2,161,794</u>	<u>2,158,479</u>	<u>53,071,282</u>	<u>57,018,063</u>
Program Expenses						
Instruction	32,483,039	34,908,111	0	0	32,483,039	34,908,111
Support Services:						
Pupils	2,725,212	2,488,911	0	0	2,725,212	2,488,911
Instructional Staff	3,753,952	4,003,919	0	0	3,753,952	4,003,919
Board of Education	37,196	35,774	0	0	37,196	35,774
Administration	3,764,493	3,666,691	0	0	3,764,493	3,666,691
Fiscal Services	732,053	699,626	0	0	732,053	699,626
Business	443,202	432,273	0	0	443,202	432,273
Operation and Maintenance of Plant	4,394,836	4,309,276	0	0	4,394,836	4,309,276
Pupil Transportation	1,159,451	983,400	0	0	1,159,451	983,400
Central	3,961	4,688	0	0	3,961	4,688
Operation of Non-Instructional Services	2,997,293	2,473,706	0	0	2,997,293	2,473,706
Extracurricular Activities	962,123	932,546	0	0	962,123	932,546
Interest and Fiscal Charges	589,763	617,853	0	0	589,763	617,853
Food Service	0	0	2,130,629	2,165,585	2,130,629	2,165,585
Uniform School Supplies	0	0	0	0	0	0
Reading Recovery Support	0	0	3,530	68,760	3,530	68,760
Total Expenses	<u>54,046,574</u>	<u>55,556,774</u>	<u>2,134,159</u>	<u>2,234,345</u>	<u>56,180,733</u>	<u>57,791,119</u>
Change in Net Assets	<u>(3,137,086)</u>	<u>(697,190)</u>	<u>27,635</u>	<u>(75,866)</u>	<u>(3,109,451)</u>	<u>(773,056)</u>
Beginning Net Assets	<u>85,846,615</u>	<u>86,543,805</u>	<u>7,963,780</u>	<u>8,039,646</u>	<u>93,810,395</u>	<u>94,583,451</u>
Ending Net Assets	<u>\$82,709,529</u>	<u>\$85,846,615</u>	<u>\$7,991,415</u>	<u>\$7,963,780</u>	<u>\$90,700,944</u>	<u>\$93,810,395</u>

### **Governmental Activities**

Net assets of the District's governmental activities decreased \$3,137,086. Overall, expenses remained stable, decreasing approximately 3%.

## **MARION CITY SCHOOL DISTRICT, OHIO**

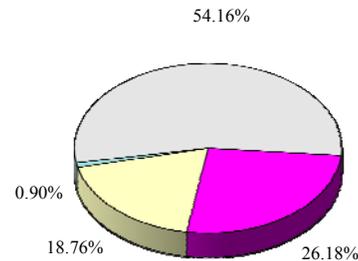
**Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2012**

**Unaudited**

The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. The overall revenue generated by the levy will not increase solely as a result of inflation. As an example, a homeowner with a home valued at \$100,000 and taxed at 1.0 mill would pay \$35.00 annually in taxes. If three years later the home were reappraised and increased to \$200,000 (and this inflationary increase in value is comparable to other property owners) the effective tax rate would become .5 mills and the owner would still pay \$35.00. However, the assessed millage cannot be reduced below 20 mills, according to state statutes. The District's assessed millage has already been reduced to the 20 mill floor. Consequently, the District will receive some increased revenues as property values increase with reappraisals.

The District's reliance upon tax revenues is demonstrated by the following graph indicating 19% of total revenues from general tax revenues:

Revenue Sources	2012	Percent of Total
General Grants	\$27,570,303	54.16%
Program Revenues	13,325,759	26.18%
General Tax Revenues	9,556,506	18.76%
General Other	456,920	0.90%
Total Revenue	<u>\$50,909,488</u>	<u>100.00%</u>



### **Business-Type Activities**

Net assets of the business-type activities increased \$27,635. Business-type activities receive no support from tax revenues and remain self-supporting.

### **FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT'S FUNDS**

The District's governmental funds reported a combined fund balance of \$14,867,287, which is a decrease from last year's total of \$15,341,563. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2012 and 2011.

	Fund Balance June 30, 2012	Fund Balance June 30, 2011	Increase (Decrease)
General	\$13,722,038	\$13,572,689	\$149,349
Other Governmental	1,145,249	1,768,874	(623,625)
Total	<u>\$14,867,287</u>	<u>\$15,341,563</u>	<u>(\$474,276)</u>

*General Fund* – The tables that follow assist in illustrating the financial activities and balance of the General Fund:

## **MARION CITY SCHOOL DISTRICT, OHIO**

**Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2012**

**Unaudited**

	2012 Revenues	2011 Revenues	Increase (Decrease)
Taxes	\$7,911,918	\$7,753,351	\$158,567
Payment in Lieu of Taxes	84,115	93,519	(9,404)
Tuition and Fees	1,675,203	2,663,291	(988,088)
Investment Earnings	100,800	111,401	(10,601)
Extracurricular Activities	34,298	42,539	(8,241)
Intergovernmental	35,041,649	32,050,298	2,991,351
All Other Revenue	189,776	248,377	(58,601)
Total	\$45,037,759	\$42,962,776	\$2,074,983

General Fund revenues in 2012 increased approximately 5% when compared to revenues in fiscal year 2011. An increase in the amount of property tax available for advance resulted in a 2% increase in property tax revenues. The decrease in investment earnings can be attributed to losses in the market value of District investments.

	2012 Expenditures	2011 Expenditures	Increase (Decrease)
Instruction	\$27,799,181	\$28,101,260	(\$302,079)
Supporting Services:			
Pupils	2,553,146	2,291,051	262,095
Instructional Staff	1,396,072	1,172,321	223,751
Board of Education	37,196	35,774	1,422
Administration	3,416,882	3,270,377	146,505
Fiscal Services	711,862	659,403	52,459
Business	454,484	427,741	26,743
Operation & Maintenance of Plant	3,885,007	3,857,518	27,489
Pupil Transportation	999,440	864,696	134,744
Central	3,739	4,688	(949)
Operation of Non-Instructional Services	2,874,834	2,165,645	709,189
Extracurricular Activities	612,757	606,114	6,643
Capital Outlay	28,172	52,858	(24,686)
Principal Retirement	29,173	28,561	612
Interest and Fiscal Charges	11,465	15,483	(4,018)
Total	\$44,813,410	\$43,553,490	\$1,259,920

General fund expenditures remained stable when compared with the prior year, increasing \$1,259,920 or about 3%.

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

## **MARION CITY SCHOOL DISTRICT, OHIO**

**Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2012**

**Unaudited**

During the course of fiscal year 2012 the District did not amend its General Fund budget. Final budget basis revenue of \$40.3 million was the same as the original estimates. Actual budget basis revenue of \$45.1 million was significantly different from the final budget.

### **CAPITAL ASSETS AND DEBT ADMINISTRATION**

#### **Capital Assets**

At the end of fiscal year 2012 the School District had \$86,664,798 net of accumulated depreciation invested in land, buildings, improvements, equipment and vehicles. Of this total, \$79,431,570 was related to governmental activities and \$7,233,228 to the business-type activities. The following table shows fiscal year 2012 and 2011 balances:

	Governmental Activities		Increase (Decrease)
	2012	2011	
Land	\$1,965,229	\$1,965,229	\$0
Land Improvements	957,587	957,587	0
Buildings and Improvements	90,753,743	90,753,743	0
Machinery and Equipment	2,503,849	801,979	1,701,870
Vehicles	1,702,008	1,649,083	52,925
Less: Accumulated Depreciation	(18,450,846)	(16,339,503)	(2,111,343)
Totals	\$79,431,570	\$79,788,118	(\$356,548)

	Business-Type Activities		Increase (Decrease)
	2012	2011	
Land	\$151,853	\$151,853	\$0
Buildings and Improvements	8,616,936	8,616,936	0
Machinery and Equipment	13,992	13,992	0
Less: Accumulated Depreciation	(1,549,553)	(1,378,468)	(171,085)
Totals	\$7,233,228	\$7,404,313	(\$171,085)

The installation of a new chiller at Marion High School contributed to the increases in machinery and equipment. Additional information on the District's capital assets can be found in Note 9.

## **MARION CITY SCHOOL DISTRICT, OHIO**

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**Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2012**

**Unaudited**

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### **Debt**

At June 30, 2012, the District had \$10.5 million in bonds outstanding, \$850,000 due within one year. The following table summarizes the District's long term obligations as of June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Governmental Activities:		
General Obligation Bonds	\$10,548,877	\$11,229,851
General Obligation Note	1,823,390	0
Capital Leases Payable	94,483	123,656
Compensated Absences	<u>3,454,096</u>	<u>3,744,355</u>
Total Governmental Activities	15,920,846	15,097,862
Business-Type Activities:		
Compensated Absences	<u>59,810</u>	<u>57,938</u>
Totals	<u><u>\$15,980,656</u></u>	<u><u>\$15,155,800</u></u>

Under current state statutes, the District's general obligation bonded debt issues are subject to a legal limitation based on 9% of the total assessed value of real and personal property. At June 30, 2012, the School District's overall legal debt margin was below the legal limit. Additional information on the District's long-term debt can be found in Note 13.

### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

Like most public school districts in Ohio, the Marion City School District relies on its property taxes along with state and federal aid to provide the funds necessary to maintain its educational programs. In recent years residential growth in Marion has been for the most part nonexistent, the economy of the community has been impacted by the national, state and local economic pressures. As a result, the school district has been forced to reduce costs. The Board of Education's willingness to confront difficult decisions regarding the instructional programs and staffing coupled with the community's willingness to provide additional funding has resulted in the stabilization of the District's financial condition.

Once again the state foundation dollars are now flowing through a new formula. This formula is known as the Bridge Formula. At this point, it is our understanding there will be yet another new formula that will be released. This formula will remain for the remainder of the current biennial budget. Currently, we are learning more and more detail to this new funding mechanism and the effects it has on Marion City Schools.

In conclusion, the Marion City School District has committed itself to financial excellence for many years.

## **MARION CITY SCHOOL DISTRICT, OHIO**

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*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2012*

*Unaudited*

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### **REQUESTS FOR INFORMATION**

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Robert Wood, Treasurer of Marion City School District, 420 Presidential Drive, Suite B, Marion, Ohio 43302.

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## MARION CITY SCHOOL DISTRICT, OHIO

### Statement of Net Assets June 30, 2012

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	Marion City Digital Academy	Rushmore Academy
<b>Assets:</b>					
Pooled Cash and Investments	\$ 16,609,462	\$ 942,198	\$ 17,551,660	\$ 563,123	\$ 773,843
Receivables:					
Taxes	11,949,771	0	11,949,771	0	0
Accounts	657,754	0	657,754	0	0
Intergovernmental	1,087,967	0	1,087,967	32,308	20,335
Payment in Lieu of Taxes	68,191	0	68,191	0	0
Due from Component Units	130,100	0	130,100	0	0
Interest	28,566	0	28,566	0	0
Inventory Held for Resale	0	24,474	24,474	0	0
Inventory of Supplies at Cost	61,905	15,395	77,300	0	0
Prepaid Items	71,032	0	71,032	192	0
Unamortized Bond Issuance Cost	159,603	0	159,603	0	0
Non-Depreciable Capital Assets	1,965,229	151,853	2,117,082	0	0
Depreciable Capital Assets, Net	77,466,341	7,081,375	84,547,716	6,517	127,233
<b>Total Assets</b>	110,255,921	8,215,295	118,471,216	602,140	921,411
<b>Liabilities:</b>					
Accounts Payable	309,217	21,170	330,387	1,059	4,799
Accrued Wages and Benefits	4,316,106	95,397	4,411,503	23,680	0
Intergovernmental Payable	1,056,597	47,503	1,104,100	54,109	1,500
Separation Benefits Payable	54,000	0	54,000	0	0
Due to Primary Government	0	0	0	1,552	128,548
Deferred Revenue	5,453,646	0	5,453,646	15,334	0
Matured Compensated Absences Payable	393,675	0	393,675	0	0
Accrued Interest Payable	42,305	0	42,305	0	0
Long Term Liabilities:					
Due Within One Year	1,296,245	7,383	1,303,628	0	0
Due in More Than One Year	14,624,601	52,427	14,677,028	0	0
<b>Total Liabilities</b>	27,546,392	223,880	27,770,272	95,734	134,847
<b>Net Assets:</b>					
Invested in Capital Assets, Net of Related Debt	69,457,685	7,233,228	76,690,913	6,517	127,233
Restricted For:					
Capital Projects	97,851	0	97,851	0	0
Debt Service	1,249,650	0	1,249,650	0	0
Other Purposes	475,119	0	475,119	0	0
Permanent Fund:					
Nonexpendable	2,220	0	2,220	0	0
Unrestricted	11,427,004	758,187	12,185,191	499,889	659,331
<b>Total Net Assets</b>	\$ 82,709,529	\$ 7,991,415	\$ 90,700,944	\$ 506,406	\$ 786,564

See accompanying notes to the basic financial statements

## MARION CITY SCHOOL DISTRICT, OHIO

### Statement of Activities For the Fiscal Year Ended June 30, 2012

	Expenses	Program Revenues	
		Charges for Services and Sales	Operating Grants and Contributions
<b>Governmental Activities:</b>			
Instruction	\$ 32,483,039	\$ 1,660,850	\$ 7,359,166
Support Services:			
Pupils	2,725,212	0	180,539
Instructional Staff	3,753,952	0	3,276,313
Board of Education	37,196	0	0
Administration	3,764,493	0	344,957
Fiscal Services	732,053	0	0
Business	443,202	0	0
Operation and Maintenance of Plant	4,394,836	0	0
Pupil Transportation	1,159,451	0	181,995
Central	3,961	0	0
Operation of Non-Instructional Services	2,997,293	0	142,686
Extracurricular Activities	962,123	179,253	0
Interest and Fiscal Charges	589,763	0	0
<b>Total Governmental Activities</b>	54,046,574	1,840,103	11,485,656
<b>Business-Type Activities:</b>			
Food Service	2,130,629	337,097	1,823,259
Other Enterprise	3,530	670	0
<b>Total Business-Type Activities</b>	2,134,159	337,767	1,823,259
<b>Totals</b>	\$ 56,180,733	\$ 2,177,870	\$ 13,308,915
<b>Component Units:</b>			
Marion City Digital Academy	\$ 933,492	\$ 0	\$ 130,681
Rushmore Academy	1,116,564	0	67,966
<b>Total Component Units</b>	\$ 2,050,056	\$ 0	\$ 198,647

#### General Revenues

##### Taxes:

Property Taxes levied for: General Purposes  
Property Taxes levied for: Classroom Facilities  
Property Taxes levied for: Debt Service  
Payment in Lieu of Taxes

Intergovernmental, Unrestricted

Investment Earnings

Miscellaneous

Total General Revenues

Change in Net Assets

Net Assets Beginning of Year

Net Assets End of Year

See accompanying notes to the basic financial statements

## MARION CITY SCHOOL DISTRICT, OHIO

Net (Expense) Revenue and Changes in Net Assets			Component Units	
Primary Government				
Governmental Activities	Business- Type Activities	Total	Marion City Digital Academy	Rushmore Academy
\$(23,463,023)	\$ 0	\$(23,463,023)		
(2,544,673)	0	(2,544,673)		
(477,639)	0	(477,639)		
(37,196)	0	(37,196)		
(3,419,536)	0	(3,419,536)		
(732,053)	0	(732,053)		
(443,202)	0	(443,202)		
(4,394,836)	0	(4,394,836)		
(977,456)	0	(977,456)		
(3,961)	0	(3,961)		
(2,854,607)	0	(2,854,607)		
(782,870)	0	(782,870)		
(589,763)	0	(589,763)		
<u>(40,720,815)</u>	<u>0</u>	<u>(40,720,815)</u>		
0	29,727	29,727		
0	(2,860)	(2,860)		
0	26,867	26,867		
<u>(40,720,815)</u>	<u>26,867</u>	<u>(40,693,948)</u>		
			\$ (802,811)	\$ 0
			<u>0</u>	<u>(1,048,598)</u>
			<u>(802,811)</u>	<u>(1,048,598)</u>
8,321,869	0	8,321,869	0	0
118,479	0	118,479	0	0
1,032,043	0	1,032,043	0	0
84,115	0	84,115	0	0
27,570,303	0	27,570,303	791,566	1,062,007
79,804	768	80,572	915	0
377,116	0	377,116	14,404	1,133
<u>37,583,729</u>	<u>768</u>	<u>37,584,497</u>	<u>806,885</u>	<u>1,063,140</u>
(3,137,086)	27,635	(3,109,451)	4,074	14,542
85,846,615	7,963,780	93,810,395	502,332	772,022
<u>\$ 82,709,529</u>	<u>\$ 7,991,415</u>	<u>\$ 90,700,944</u>	<u>\$ 506,406</u>	<u>\$ 786,564</u>

**MARION CITY SCHOOL DISTRICT, OHIO**

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**Balance Sheet**  
**Governmental Funds**  
**June 30, 2012**

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	General	Other Governmental Funds	Total Governmental Funds
	<u>          </u>	<u>          </u>	<u>          </u>
<b>Assets:</b>			
Pooled Cash and Investments	\$ 14,940,214	\$ 1,669,248	\$ 16,609,462
Receivables:			
Taxes	10,396,239	1,553,532	11,949,771
Accounts	657,754	0	657,754
Intergovernmental	20,078	1,067,889	1,087,967
Interest	28,566	0	28,566
Payment in Lieu of Taxes	68,191	0	68,191
Due from Component Units	130,100	0	130,100
Interfund Loans Receivable	905,421	0	905,421
Inventory of Supplies at Cost	61,905	0	61,905
Prepaid Items	71,032	0	71,032
<b>Total Assets</b>	<u>\$ 27,279,500</u>	<u>\$ 4,290,669</u>	<u>\$ 31,570,169</u>
<b>Liabilities:</b>			
Accounts Payable	\$ 211,039	\$ 98,178	\$ 309,217
Accrued Wages and Benefits	3,789,812	526,294	4,316,106
Intergovernmental Payable	966,529	90,068	1,056,597
Interfund Loans Payable	0	905,421	905,421
Deferred Revenue	8,196,407	1,525,459	9,721,866
Matured Compensated Absences Payable	393,675	0	393,675
<b>Total Liabilities</b>	<u>13,557,462</u>	<u>3,145,420</u>	<u>16,702,882</u>
<b>Fund Balance:</b>			
Nonspendable	132,937	2,220	135,157
Restricted	0	2,030,786	2,030,786
Assigned	326,111	0	326,111
Unassigned	13,262,990	(887,757)	12,375,233
<b>Total Fund Balance</b>	<u>13,722,038</u>	<u>1,145,249</u>	<u>14,867,287</u>
<b>Total Liabilities and Fund Balance</b>	<u>\$ 27,279,500</u>	<u>\$ 4,290,669</u>	<u>\$ 31,570,169</u>

See accompanying notes to the basic financial statements

## **MARION CITY SCHOOL DISTRICT, OHIO**

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### ***Reconciliation Of Total Governmental Fund Balances To Net Assets Of Governmental Activities June 30, 2012***

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<b>Total Governmental Fund Balances</b>		\$ 14,867,287
<i>Amounts reported for governmental activities in the statement of net assets are different because</i>		
Capital Assets used in governmental activities are not resources and therefore are not reported in the funds.		79,431,570
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Accounts Receivable	593,653	
Accrued Interest Receivable	10,122	
Intergovernmental Receivable	393,591	
Due from Component Unit	128,548	
Property Tax Receivable	3,142,306	4,268,220
Unamortized issuance costs represent deferred charges which do not provide current financial resources and, therefore, are not reported in the funds.		159,603
Accrued interest on outstanding debt is not due and payable in the current period and, therefore, is not reported in the funds: it is reported when due.		(42,305)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
Separation Benefits Payable	(54,000)	
General Obligation Bonds Payable	(10,548,877)	
General Obligation Note Payable	(1,823,390)	
Capital Leases Payable	(94,483)	
Compensated Absences Payable	(3,454,096)	(15,974,846)
<b><i>Net Assets of Governmental Activities</i></b>		<b><u>\$ 82,709,529</u></b>

See accompanying notes to the basic financial statements

**MARION CITY SCHOOL DISTRICT, OHIO**

**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**For the Fiscal Year Ended June 30, 2012**

	General	Other Governmental Funds	Total Governmental Funds
	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>			
Local Sources:			
Property Taxes	\$ 7,911,918	\$ 1,150,522	\$ 9,062,440
Payments in Lieu of Taxes	84,115	0	84,115
Tuition	1,659,925	0	1,659,925
Investment Earnings	100,800	172	100,972
Extracurricular Activities	34,298	104,325	138,623
Class Materials and Fees	15,278	0	15,278
Intermediate Sources	0	27,563	27,563
Intergovernmental - State	34,934,941	726,891	35,661,832
Intergovernmental - Federal	106,708	5,400,690	5,507,398
All Other Revenue	189,776	183,524	373,300
<b>Total Revenue</b>	<u>45,037,759</u>	<u>7,593,687</u>	<u>52,631,446</u>
<b>Expenditures:</b>			
Current:			
Instruction	27,799,181	3,733,087	31,532,268
Supporting Services:			
Pupils	2,553,146	115,006	2,668,152
Instructional Staff	1,396,072	2,077,325	3,473,397
Board of Education	37,196	0	37,196
Administration	3,416,882	218,788	3,635,670
Fiscal Services	711,862	32,244	744,106
Business	454,484	183	454,667
Operation and Maintenance of Plant	3,885,007	484,497	4,369,504
Pupil Transportation	999,440	71,200	1,070,640
Central	3,739	0	3,739
Operation of Non-Instructional Services	2,874,834	131,685	3,006,519
Extracurricular Activities	612,757	202,491	815,248
Capital Outlay	28,172	1,797,136	1,825,308
Debt Service:			
Principal Retirement	29,173	800,000	829,173
Interest and Fiscal Charges	11,465	452,060	463,525
<b>Total Expenditures</b>	<u>44,813,410</u>	<u>10,115,702</u>	<u>54,929,112</u>

**MARION CITY SCHOOL DISTRICT, OHIO**

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	General	Other Governmental Funds	Total Governmental Funds
Excess (Deficiency) of Revenues Over (Under) Expenditures	224,349	(2,522,015)	(2,297,666)
<b>Other Financing Sources (Uses):</b>			
Long-Term Notes Issued	0	1,823,390	1,823,390
Transfers In	0	75,000	75,000
Transfers Out	(75,000)	0	(75,000)
<b>Total Other Financing Sources (Uses)</b>	(75,000)	1,898,390	1,823,390
Net Change in Fund Balance	149,349	(623,625)	(474,276)
<b>Fund Balance at Beginning of Year</b>	13,572,689	1,768,874	15,341,563
<b>Fund Balance End of Year</b>	\$ 13,722,038	\$ 1,145,249	\$ 14,867,287

See accompanying notes to the basic financial statements

**MARION CITY SCHOOL DISTRICT, OHIO**

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***Reconciliation Of The Statement Of Revenues, Expenditures  
And Changes In Fund Balances Of Governmental Funds  
To The Statement Of Activities  
For The Fiscal Year Ended June 30, 2012***

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**Net Change in Fund Balances - Total Governmental Funds** \$ (474,276)

*Amounts reported for governmental activities in the statement of activities are different because*

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.

Capital Outlay	1,754,795	
Depreciation	<u>(2,111,343)</u>	(356,548)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Property Taxes	409,951	
Intergovernmental	(2,157,703)	
Accrued Interest	(21,168)	
Tuition and Fees	(14,353)	
Charges for Services	<u>61,315</u>	(1,721,958)

The issuance of long-term debt provides current financial resources to governmental funds, but has no effect on net assets. In addition, repayment of bond, note and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

General Obligation Bonds Principal	800,000	
Capital Lease Principal	29,173	
General Obligation Note Issued	<u>(1,823,390)</u>	(994,217)

The accounting loss on refunded debt is reported as an expense at the time of refunding but is amortized over the life of the new debt on the statement of activities

(8,374)

## **MARION CITY SCHOOL DISTRICT, OHIO**

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Interest is reported as an expenditure when due in the governmental funds but is accrued on outstanding debt on the statement of net assets.

Premiums are reported as revenues when the debt is first issued; however, these amounts are deferred and amortized on the statement of net assets.

Accrued Interest Payable	(2,650)	
Annual Accretion on Capital Appreciation Bonds	(121,640)	
Amortization of Premium	<u>10,988</u>	(113,302)

Issuance costs are reported as an expenditure when paid in the governmental funds but are amortized over the life of the debt on the statement of activities.

Issuance Costs on Issued Notes	29,892	
Amortization of Issuance Costs	<u>(4,562)</u>	25,330

Some expenses reported on the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Separation Benefits Payable	216,000	
Compensated Absences Payable	<u>290,259</u>	<u>506,259</u>

***Change in Net Assets of Governmental Activities*** \$ (3,137,086)

See accompanying notes to the basic financial statements

## MARION CITY SCHOOL DISTRICT, OHIO

**Statement of Revenues, Expenditures and Changes in  
Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis)  
General Fund  
For the Fiscal Year Ended June 30, 2012**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b>Revenues:</b>				
Local Sources:				
Property Taxes	\$ 7,850,597	\$ 7,850,597	\$ 7,871,536	\$ 20,939
Payment in Lieu of Taxes	90,000	90,000	84,115	(5,885)
Tuition	1,593,000	1,593,000	1,661,346	68,346
Investment Earnings	120,000	120,000	102,858	(17,142)
Extracurricular Activities	32,500	32,500	34,298	1,798
Class Material and Fees	9,000	9,000	15,278	6,278
Intergovernmental - State	30,565,381	30,565,381	35,124,633	4,559,252
Intergovernmental - Federal	0	0	97,658	97,658
All Other Revenues	48,257	48,257	91,783	43,526
Total Revenues	<u>40,308,735</u>	<u>40,308,735</u>	<u>45,083,505</u>	<u>4,774,770</u>
<b>Expenditures:</b>				
Current:				
Instructional Services:				
Regular	22,598,513	22,598,513	22,425,630	172,883
Special	4,804,786	4,804,786	4,768,029	36,757
Vocational	443,685	443,685	440,291	3,394
Adult/Continuing	13,925	13,925	13,818	107
Other	177,052	177,052	175,698	1,354
Support Services:				
Pupils	2,580,728	2,580,728	2,560,985	19,743
Instructional Staff	1,422,177	1,422,177	1,411,297	10,880
Board of Education	39,566	39,566	39,263	303
Administration	3,397,610	3,397,610	3,371,618	25,992
Fiscal Services	747,460	747,460	741,742	5,718
Business	447,607	447,607	444,183	3,424
Operation and Maintenance of Plant	4,067,059	4,067,059	4,035,945	31,114
Pupil Transportation	1,049,929	1,049,929	1,041,897	8,032
Central	1,901	1,901	1,886	15
Operation of Non-Instructional Services	2,896,997	2,896,997	2,874,834	22,163
Extracurricular Activities	613,246	613,246	608,555	4,691
Capital Outlay	56,959	56,959	56,523	436
Total Expenditures	<u>45,359,200</u>	<u>45,359,200</u>	<u>45,012,194</u>	<u>347,006</u>

**MARION CITY SCHOOL DISTRICT, OHIO**

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	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
Excess (Deficiency) of Revenues Over (Under) Expenditures	(5,050,465)	(5,050,465)	71,311	5,121,776
<b>Other Financing Sources (Uses):</b>				
Transfers Out	(75,000)	(75,000)	(75,000)	0
Total Other Financing Sources (Uses):	(75,000)	(75,000)	(75,000)	0
Net Change in Fund Balance	(5,125,465)	(5,125,465)	(3,689)	5,121,776
Fund Balance at Beginning of Year - Restated	14,893,485	14,893,485	14,893,485	0
Prior Year Encumbrances	568,069	568,069	568,069	0
Fund Balance at End of Year	\$ 10,336,089	\$ 10,336,089	\$ 15,457,865	\$ 5,121,776

See accompanying notes to the basic financial statements

## MARION CITY SCHOOL DISTRICT, OHIO

**Statement of Net Assets**  
**Proprietary Funds**  
**June 30, 2012**

	Business-Type Activities		
	Enterprise Funds		
	Food Service	Other Enterprise	Total
<b>Assets:</b>			
<i>Current Assets:</i>			
Pooled Cash and Investments	\$ 871,529	\$ 70,669	\$ 942,198
Receivables:			
Inventory Held for Resale	24,474	0	24,474
Inventory of Supplies at Cost	15,395	0	15,395
<i>Total Current Assets</i>	<u>911,398</u>	<u>70,669</u>	<u>982,067</u>
<i>Non Current Assets:</i>			
Non-Depreciable Capital Assets	151,853	0	151,853
Depreciable Capital Assets, Net	7,081,272	103	7,081,375
<b>Total Assets</b>	<u>8,144,523</u>	<u>70,772</u>	<u>8,215,295</u>
<b>Liabilities:</b>			
<i>Current Liabilities:</i>			
Accounts Payable	21,170	0	21,170
Accrued Wages and Benefits	95,397	0	95,397
Intergovernmental Payable	47,503	0	47,503
Compensated Absences - Current	7,383	0	7,383
<i>Total Current Liabilities</i>	<u>171,453</u>	<u>0</u>	<u>171,453</u>
<i>Long Term Liabilities:</i>			
Compensated Absences Payable	52,427	0	52,427
<b>Total Liabilities</b>	<u>223,880</u>	<u>0</u>	<u>223,880</u>
<b>Net Assets:</b>			
Invested in Capital Assets, Net of Related Deb	7,233,125	103	7,233,228
Unrestricted	687,518	70,669	758,187
<b>Total Net Assets</b>	<u>\$ 7,920,643</u>	<u>\$ 70,772</u>	<u>\$ 7,991,415</u>

See accompanying notes to the basic financial statements

**MARION CITY SCHOOL DISTRICT, OHIO**

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**Statement of Revenues, Expenses and Changes in Fund Net Assets  
Proprietary Funds  
For the Fiscal Year Ended June 30, 2012**

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	Business-Type Activities		
	Enterprise Funds		
	Food Service	Other Enterprise	Total
<b>Operating Revenues:</b>			
Sales	\$ 331,932	\$ 670	\$ 332,602
Other Operating Revenues	5,165	0	5,165
<b>Total Operating Revenues</b>	<u>337,097</u>	<u>670</u>	<u>337,767</u>
<b>Operating Expenses:</b>			
Salaries and Wages	582,065	2,888	584,953
Fringe Benefits	273,432	31	273,463
Contractual Services	85,736	0	85,736
Supplies and Materials	1,018,922	0	1,018,922
Depreciation	170,474	611	171,085
<b>Total Operating Expenses</b>	<u>2,130,629</u>	<u>3,530</u>	<u>2,134,159</u>
Operating Income (Loss)	(1,793,532)	(2,860)	(1,796,392)
<b>Nonoperating Revenue (Expenses):</b>			
Operating Grants	1,823,259	0	1,823,259
Investment Earnings	768	0	768
<b>Total Nonoperating Revenues (Expenses)</b>	<u>1,824,027</u>	<u>0</u>	<u>1,824,027</u>
<b>Change in Net Assets</b>	30,495	(2,860)	27,635
Net Assets Beginning of Year	7,890,148	73,632	7,963,780
Net Assets End of Year	<u>\$ 7,920,643</u>	<u>\$ 70,772</u>	<u>\$ 7,991,415</u>

See accompanying notes to the basic financial statements

**MARION CITY SCHOOL DISTRICT, OHIO**

**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Fiscal Year Ended June 30, 2012**

	Business-Type Activities		
	Enterprise Funds		
	Food Service	Other Enterprise	Total
<u>Cash Flows from Operating Activities:</u>			
Cash Received from Customers	\$331,932	\$670	\$332,602
Cash Received from Other Revenues	5,165	0	5,165
Cash Payments for Goods and Services	(1,088,916)	0	(1,088,916)
Cash Payments to Employees for Services and Benefits	(859,950)	(3,114)	(863,064)
Net Cash Provided (Used) by Operating Activities	(1,611,769)	(2,444)	(1,614,213)
<u>Cash Flows from Noncapital Financing Activities:</u>			
Operating Grants Received	1,858,779	0	1,858,779
Net Cash Provided by Noncapital Financing Activities	1,858,779	0	1,858,779
<u>Cash Flows from Investing Activities:</u>			
Receipts of Interest	768	0	768
Net Cash Provided by Investing Activities	768	0	768
Net Increase (Decrease) in Cash and Cash Equivalents	247,778	(2,444)	245,334
Cash and Cash Equivalents at Beginning of Year	623,751	73,113	696,864
Cash and Cash Equivalents at End of Year	\$871,529	\$70,669	\$942,198
<u>Reconciliation of Operating Income (Loss) to Net Cash</u>			
<u>    Provided (Used) by Operating Activities:</u>			
Operating Income (Loss)	(\$1,793,532)	(\$2,860)	(\$1,796,392)
Adjustments to Reconcile Operating Income (Loss) to			
Net Cash Provided (Used) by Operating Activities:			
Depreciation Expense	170,474	611	171,085
Changes in Assets and Liabilities:			
Decrease in Inventory Held for Resale	2,385	0	2,385
Increase in Inventory of Supplies at Cost	(5,717)	0	(5,717)
Increase in Accounts Payable	19,074	0	19,074
Increase in Accrued Wages and Benefits	1,060	0	1,060
Decrease in Intergovernmental Payables	(7,385)	(195)	(7,580)
Increase in Compensated Absences	1,872	0	1,872
Total Adjustments	181,763	416	182,179
Net Cash Provided (Used) by Operating Activities	(\$1,611,769)	(\$2,444)	(\$1,614,213)

See accompanying notes to the basic financial statements

**MARION CITY SCHOOL DISTRICT, OHIO**

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**Statement of Net Assets**  
**Fiduciary Funds**  
**June 30, 2012**

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	Private Purpose	
	Trust	Agency
	<u>          </u>	<u>          </u>
<b>Assets:</b>		
Cash and Cash Equivalents	\$ 107,135	\$ 19,233
<b>Liabilities:</b>		
Due to Students	0	19,233
<b>Net Assets:</b>		
Held in Trust for Scholarships	7,063	0
Endowments	100,072	0
<b>Total Net Assets</b>	<u>\$ 107,135</u>	<u>\$ 0</u>

See accompanying notes to the basic financial statements

**MARION CITY SCHOOL DISTRICT, OHIO**

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**Statement of Changes in Net Assets**  
**Fiduciary Fund**  
**For the Fiscal Year Ended June 30, 2012**

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	Private Purpose Trust
<b>Additions:</b>	
Contributions:	
Private Donations	\$ 1,000
Total Contributions	<u>1,000</u>
Investment Earnings:	
Interest	132
Total Additions	<u>1,132</u>
Change in Net Assets	1,132
Net Assets at Beginning of Year	<u>106,003</u>
Net Assets End of Year	<u>\$ 107,135</u>

See accompanying notes to the basic financial statements

## **MARION CITY SCHOOL DISTRICT, OHIO**

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### ***Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2012***

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#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### **A. Reporting Entity**

Marion City School District, Ohio (the District) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio.

The District is governed by a locally elected five member Board of Education (the Board) which provides educational services. The Board controls the District's instructional support facilities staffed by approximately 186 noncertified and approximately 391 certified teaching personnel and administrative employees providing education to 4,521 students.

The accompanying basic financial statements comply with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 14, "*The Financial Reporting Entity*," and Statement No. 39, "*Determining Whether Certain Organizations are Component Units*," in that the financial statements include all organizations, activities, functions and component units for which the District (the reporting entity) is financially accountable. Financial accountability is defined as the appointment of a voting majority of a legally separate organization's governing board and either the District's ability to impose its will over the organization or the possibility that the organization will provide a financial benefit to, or impose a financial burden on the District. Additionally, the primary government is required to consider other organizations for which the primary government is not financially accountable to determine whether the relationship is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Based on the foregoing, the District's reporting entity has two component units, the Marion City Digital Academy and the Rushmore Academy and includes the following services: instructional (regular, special education, vocational), student guidance, extracurricular activities, food service, pupil transportation and care and upkeep of grounds and buildings.

The component units' columns in the government-wide financial statements include the financial data of the District's component units. They are reported in separate columns to emphasize that they are legally separate from the District. Information about the component units is presented in Notes 21 and 22 to the basic financial statements.

Marion City Digital Academy – MCDA is a legally separate, not-for-profit corporation. MCDA, under a contractual agreement with the Marion City School District, provides education opportunities through distance learning technologies. Marion City School District is MCDA's sponsoring government and MCDA's five member Board of Directors is appointed by Marion City School District's Board of Education. Marion City School District is financially accountable for MCDA as it appoints MCDA's Board and can impose its will on MCDA. MCDA is reported as a discretely presented component unit on Marion City School District's financial statements. Separately issued financial statements for MCDA can be obtained from the Treasurer of MCDA, 420 Presidential Drive, Suite B, Marion, Ohio 43302.

## **MARION CITY SCHOOL DISTRICT, OHIO**

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### ***Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2012***

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#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **A. Reporting Entity** (Continued)

Rushmore Academy – The Academy is a legally separate, not-for-profit corporation. The Academy, under a contractual agreement with the Marion City School District, provides education opportunities to high school dropouts, formerly home schooled students, students who have experienced consistent lack of success in traditional high school settings, and other students age sixteen through twenty-one. Marion City School District is the Academy's sponsoring government and the Academy's five member Board of Directors is appointed by Marion City School District's Board of Education. Marion City School District is financially accountable for the Academy as it appoints the Academy's Board and can impose its will on the Academy. The Academy is reported as a discretely presented component unit on Marion City School District's financial statements. Separately issued financial statements for the Academy can be obtained from the Treasurer of the Academy, 420 Presidential Drive, Suite B, Marion, Ohio 43302.

The following activity is included within the School District's reporting entity:

Within the School District boundaries, St. Mary's Elementary and Marion Catholic High School are operated as private schools. Current State legislation provides funding to these parochial schools. The monies received and disbursed on behalf of the parochial schools by the Treasurer of the School District, as directed by the parochial schools. This activity is reflected in a special revenue fund for financial reporting purposes by the School District.

The School District participates in two jointly governed organizations, one insurance pool, and a related organization. These organizations are the Tri-Rivers Educational Computer Association (TRECA), Tri-Rivers Joint Vocational School, Ohio Association of School Business Officials Workers' Compensation Group Rating Plan, and the Marion Public Library. These organizations are presented in Notes 17, 15, and 18 respectively, to the basic financial statements.

The accounting policies and financial reporting practices of the District conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of its significant accounting policies.

##### **B. Basis of Presentation - Fund Accounting**

The accounting system is organized and operated on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures/expenses. The various funds are grouped into the categories governmental, proprietary and fiduciary.

## **MARION CITY SCHOOL DISTRICT, OHIO**

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### ***Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2012***

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#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **B. Basis of Presentation - Fund Accounting** (Continued)

***Governmental Funds*** - These are funds through which most governmental functions typically are financed. The acquisition, use and balances of the District's expendable financial resources and the related current liabilities (except those accounted for in the proprietary funds) are accounted for through governmental funds. The measurement focus is upon determination of "financial flow" (sources, uses and balances of financial resources). The following is the District's major governmental fund:

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

The other governmental funds of the District account for grants and other resources whose use is restricted to a particular purpose.

***Proprietary Funds*** - The proprietary funds are accounted for on an "economic resources" measurement focus. This measurement focus provides that all assets and all liabilities associated with the operation of the proprietary funds are included on the balance sheet. The proprietary fund operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

**Enterprise Funds** - These funds are used to account for operations that are financed and operated in a manner similar to private business enterprises in which the intent of the governing body 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. The District's major enterprise fund is:

**Food Service Fund** - This fund accounts for the financial transactions related to the food service operations of the District.

The other enterprise funds of the School District account for uniform school supplies and activities related to reading recovery support.

***Fiduciary Funds*** - Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary category is split into two classifications: private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations or other governments and therefore not available to support the District's own programs. The District's only trust fund is a private purpose trust that accounts for scholarship programs, gifts and awards for specific students. State law permits the District to appropriate for purposes consistent with the endowment's intent, net appreciation, both realized and unrealized. The agency funds account for various student managed activities and payroll withholdings and deductions, are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operation.

## **MARION CITY SCHOOL DISTRICT, OHIO**

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### ***Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2012***

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#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **C. Basis of Presentation – Financial Statements**

**Government-wide Financial Statements** – The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

**Fund Financial Statements** – Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

## **MARION CITY SCHOOL DISTRICT, OHIO**

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### ***Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2012***

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#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **C. Basis of Presentation – Financial Statements (Continued)**

All proprietary fund types 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 statement of net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

Private purpose trust funds are reported using the economic resources measurement focus.

##### **D. Basis of Accounting**

Basis of accounting represents the methodology utilized in the recognition of revenues and expenditures or expenses reported in the financial statements. The accounting and reporting treatment applied to a fund is determined by its measurement focus.

The modified accrual basis of accounting is followed by the governmental funds. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. The term “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period, which for the District is considered to be 60 days after fiscal year end. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on general long-term debt which is recognized when due.

Under the modified accrual basis, the following revenue sources are considered susceptible to accrual at year end: property taxes available as an advance, tuition, grants, student fees, and interest on investments.

Current property taxes measurable at June 30, 2012, and which are not intended to finance fiscal year 2012 operations, have been recorded as deferred revenues. Delinquent property taxes measurable and available (received within 60 days) and amounts available as an advance on future tax settlements are recognized as revenue at year end.

The accrual basis of accounting is utilized for reporting purposes by the government-wide financial statements, proprietary funds and the fiduciary funds. Revenues are recognized when they are earned and expenses are recognized when incurred.

Pursuant to GASB Statement No. 20, “*Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*,” the District follows GASB guidance as applicable to proprietary funds and FASB Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements. The District has elected not to apply FASB statements and interpretations issued after November 30, 1989 to its business-type activities and enterprise funds.

# MARION CITY SCHOOL DISTRICT, OHIO

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## *Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2012*

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### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### **D. Basis of Accounting** (Continued)

**Revenues – Exchange and Non-exchange Transactions** – Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include income and property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

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

#### **E. 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 basis of budgeting. The certificate of estimated resources and the appropriation resolution are subject to amendment throughout the year.

All funds other than agency funds are legally required to be budgeted and appropriated; however, only the General Fund is required to be reported. The primary level of budgetary control is at the fund level. Supplemental budgetary modifications may only be made by resolution of the Board of Education.

##### **1. Tax Budget**

By January 15, the Superintendent and Treasurer submit an annual operating budget for the following fiscal year to the Board of Education for consideration and passage. The adopted budget is submitted to the County Auditor, as Secretary of the County Budget Commission, by January 20 of each year for the period July 1 to June 30 of the following fiscal year.

## **MARION CITY SCHOOL DISTRICT, OHIO**

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### ***Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2012***

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#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **E. Budgetary Process** (Continued)

###### **2. Estimated Resources**

Prior to April 1, the Board 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 District must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations measure. On or about July 1, the certificate of estimated resources is amended to include any unencumbered fund balances from the preceding year. The certificate may be further amended during the year if a new source of revenue is identified or actual receipts exceed current estimates. The amounts reported on the budgetary statement as final budget reflect the amounts in the final amended official certificate of estimated resources issued during fiscal year 2012.

###### **3. Appropriations**

A temporary appropriation measure to control expenditures may be passed on or about July 1 of each year for the period July 1 through September 30. An annual appropriation resolution must be passed by October 1 of each year for the period July 1 through June 30. The appropriation resolution establishes spending controls at the fund level. The appropriation resolution may be amended during the year as additional information becomes available, provided that total fund appropriations do not exceed the current estimated resources as certified. The allocation of appropriations may be modified during the year. Administrative control is maintained through the establishment of more detailed line-item budgets. The budgetary figures which appear in the "Statement of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual" are provided on the budgetary basis to provide a comparison of actual results to the final budget. All amendments and modifications are included in final budget amounts presented.

###### **4. 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 appropriations. The encumbered appropriation balance is carried forward to the subsequent fiscal year and need not be reappropriated.

**MARION CITY SCHOOL DISTRICT, OHIO**

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**Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**E. Budgetary Process (Continued)**

**5. Basis of Budgeting**

The District's budgetary process accounts for certain transactions on a basis other than generally accepted accounting principles (GAAP). The major differences between the budgetary basis and the GAAP basis lie in the manner in which revenues and expenditures are recorded. Under the budgetary basis, revenues and expenditures are recognized on a cash basis. Utilizing the cash basis, revenues are recorded when received in cash and expenditures when paid. Under the GAAP basis, revenues and expenditures are recorded on the modified accrual basis of accounting. Encumbrances are recorded as the equivalent of expenditures on a budgetary basis.

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statement for the General Fund:

	Net Change in Fund Balance
	General Fund
GAAP Basis (as reported)	\$149,349
Increase (Decrease):	
Accrued Revenues	
at June 30, 2012,	
received during FY 2013	(3,104,521)
Accrued Revenues	
at June 30, 2011,	
received during FY 2012	3,045,838
Accrued Expenditures	
at June 30, 2012,	
paid during FY 2013	5,361,055
Accrued Expenditures	
at June 30, 2011,	
paid during FY 2012	(5,318,082)
Cash Adjustments:	
Unrecorded Cash Activity FY 2011	156,154
Unrecorded Cash Activity FY 2012	152
2011 Prepays for 2012	66,993
2012 Prepays for 2013	(71,032)
2011 Materials and Supplies Inventory	89,090
2012 Materials and Supplies Inventory	(61,905)
Encumbrances Outstanding	(321,188)
Perspective Difference:	
Activity of Funds Reclassified	
for GAAP Reporting Purposes	4,408
Budget Basis	(\$3,689)

# MARION CITY SCHOOL DISTRICT, OHIO

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## *Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2012*

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### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### **F. Cash and Investments**

To improve cash management, cash received by the School District is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through School District records. Interest in the pool is presented as "Pooled Cash and Investments". See Note 4, "Cash, Cash Equivalents and Investments."

During fiscal year 2012, the School District invested in nonnegotiable certificates of deposit, federal agency securities, and STAR Ohio. Investment procedures and interest allocations are restricted by provisions of the Ohio Constitution and the Ohio Revised Code. In accordance with GASB Statement No. 31, "*Accounting and Financial Reporting for Certain Investments and for External Investment Pools*", the District reports its investments at fair value, except for nonparticipating investment contracts (certificates of deposit) which are reported at cost. All investment income, including changes in the fair value of investments, are recognized as revenue in the operating statements. Fair value is determined by quoted market prices. 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, 2012. See Note 4, "Cash, Cash Equivalents and Investments."

The School District allocates interest earnings according to State statutes. Interest revenue credited to the General Fund during fiscal year 2012 was \$100,800, which includes \$10,434 assigned from other School District funds.

#### **G. Inventory**

On the government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used.

On fund financial statements, inventories of governmental funds are stated at cost while 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. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure in the governmental funds when purchased and in the enterprise funds when used.

#### **H. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 2012, 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.

# MARION CITY SCHOOL DISTRICT, OHIO

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## *Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2012*

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### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### **I. Capital Assets and Depreciation**

Capital assets are defined by the District as assets with an initial, individual cost of more than \$10,000 and an estimated useful life threshold of five or more years.

##### 1. Property, Plant and Equipment - Governmental Activities

Governmental activities capital assets are those not directly related to the business type funds. These generally are acquired or constructed for governmental activities and are recorded as expenditures in the governmental funds and are capitalized at cost (or estimated historical cost for assets not purchased in recent years). These assets are reported in the Governmental Activities column of the Government-wide Statement of Net Assets, but they are not reported in the Fund Financial Statements.

The District does not possess any infrastructure.

##### 2. Property, Plant and Equipment – Business Type Activities

Property, plant and equipment acquired by the proprietary funds are stated at cost (or estimated historical cost), including interest capitalized during construction and architectural and engineering fees where applicable. These assets are reported in both the Business-Type Activities column of the Government-wide Statement of Net Assets and in the respective funds.

##### 3. Depreciation

All capital assets are depreciated, excluding land and construction in progress. Depreciation has been provided using the straight-line method over the following estimated useful lives:

<u>Description</u>	<u>Governmental and Business-Type Activities Estimated Lives (in years)</u>
Land Improvements	25 - 50
Buildings and Improvements	20 - 100
Machinery, Equipment, Vehicles, Furniture and Fixtures	5 – 40
Vehicles	10 - 15

**MARION CITY SCHOOL DISTRICT, OHIO**

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*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012*

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**J. Long-Term Obligations**

Long-term liabilities are being repaid from the following funds:

<u>Obligation</u>	<u>Fund</u>
General Obligation Bonds	Debt Service Fund
Compensated Absences	General Fund and Food Service Fund
Capital Leases	General Fund

**K. Unamortized Issuance Costs and Premiums**

On government-wide financial statements, issuance costs and premiums are deferred and amortized over the term of the bonds using the bonds-outstanding method, which approximates the effective interest method. Issuance costs are recorded as deferred charges and are generally paid from debt proceeds. Bond premiums are presented as an addition to the face amount of bonds payable.

**L. Unamortized Loss on Advance Refunding**

For advance refundings resulting in the defeasance of debt, the difference between the reacquisition price and the net carrying amount of the old debt is deferred and amortized as a component of interest expense. This accounting loss is amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter, and presented as a reduction of the face amount of the new debt.

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## MARION CITY SCHOOL DISTRICT, OHIO

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### *Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2012*

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#### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### **M. Compensated Absences**

In accordance with GASB Statement No. 16, "Accounting for Compensated Absences," vacation benefits are accrued as a liability when an employee's right to receive compensation is attributable to services already rendered, and it is probable that the employee will be compensated through paid time off or some other means, such as cash payments at termination or retirement. Administrators and classified staff who work twelve month contracts are granted vacation leave based on length of service and position. The School District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service. 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. The School District records a liability for accumulated unused sick leave for all employees after ten years of service. Employees can earn sick leave at a rate of one and one-fourth days per month. Sick leave may be accumulated up to two hundred sixty-five days for twelve month classified employees, two hundred twenty days for less than twelve month classified employees, and two hundred two days for certified employees. Upon retirement, payment is made for one-third of accrued but unused sick leave credit to the maximum of forty-four and one-third days for classified employees and fifty days for certified employees. Employees earn extra days if they have more than one hundred twenty days of accumulated sick leave. Depending on length of service, classified employees can earn from four to eight extra days and certified employees can earn from two to ten extra days. For governmental funds, that portion of unpaid compensated absences that is expected to be paid using expendable, available resources is reported as an expenditure in the fund from which the individual earning the leave is paid, and a corresponding liability is reflected in the account "Compensated Absences Payable." For governmental funds, compensated absences are recognized as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignations and retirements. In the government wide statement of net assets, "Compensated Absences Payable" is recorded within the "Due within one year" account and the long-term portion of the liability is recorded within the "Due in more than one year" account. Compensated absences are expensed in the proprietary funds when earned and the related liability is reported within the fund.

##### **N. Net Assets**

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

The School District's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

## **MARION CITY SCHOOL DISTRICT, OHIO**

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### ***Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2012***

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#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **O. Pensions**

The provision for pension cost is recorded when the related payroll is accrued and the obligation is incurred.

##### **P. Interfund Activity**

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

Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as internal balances.

##### **Q. Fund Balance**

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

***Nonspendable*** - The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of loans receivable, as well as property acquired for resale, unless the use of the proceeds from the collection of those receivables or from the sale of those properties is restricted, committed, or assigned.

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

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

## **MARION CITY SCHOOL DISTRICT, OHIO**

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### ***Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2012***

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#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **Q. Fund Balance** (Continued)

***Assigned*** - Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by the District Board of Education.

***Unassigned*** - Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned. The District applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

##### **R. 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 could differ from those estimates.

##### **S. Operating Revenues and Expenses**

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, these revenues are sales for food service, uniform school supplies and reading recovery support. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

##### **T. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. The District had no extraordinary or special items during fiscal year 2012.

## **MARION CITY SCHOOL DISTRICT, OHIO**

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### ***Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2012***

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#### **NOTE 2 – ACCOUNTABILITY AND RESTATEMENT OF BUDGETARY FUND BALANCE**

***Fund Deficits*** - The fund deficits at June 30, 2012 of \$15,700 in the Early Childhood Education Fund, \$6 in the School Conflict Management Grant Fund, \$131,369 in the IDEA-B Fund, \$31,268 in the Title II-A Fund, \$57,173 in the Education Jobs Fund, \$42,550 in the Race to the Top Fund, \$601,472 in the Title I Fund, and \$8,219 in the Miscellaneous Federal Grants Fund (special revenue funds) arise from the recognition of expenditures on the modified accrual basis which are greater than expenditures recognized on the budgetary basis. The General Fund provides transfers when cash is required, not when accruals occur.

During the year, the District discovered that the General Fund's fund balance on the Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual was misstated. The correction resulted in the restatement of fund balance – Budget and Actual at June 30, 2011 for the General Fund as follows:

	General Fund
Fund Balance - Budget and Actual at June 30, 2011 as reported	<u>\$14,961,411</u>
Accounting Error	<u>(67,926)</u>
Fund Balance - Budget and Actual at June 30, 2011 as restated	<u><u>\$14,893,485</u></u>

**MARION CITY SCHOOL DISTRICT, OHIO**

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**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2012**

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**NOTE 3 – FUND BALANCES**

Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the District is bound to observe constraints imposed upon the use of resources in the government funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

<u>Fund Balances</u>	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Nonspendable:			
Supplies Inventory	\$61,905	\$0	\$61,905
Prepays	71,032	0	71,032
Endowments	0	2,220	2,220
Total Nonspendable	<u>132,937</u>	<u>2,220</u>	<u>135,157</u>
Restricted:			
School Facilities Maintenance	0	782,827	782,827
Auxiliary Services	0	10,831	10,831
Extracurricular Activities	0	89,240	89,240
Technology Improvements	0	15,550	15,550
Targeted Academic Assistance	0	119,435	119,435
Debt Service Payments	0	915,052	915,052
Capital Acquisition and Improvement	0	97,851	97,851
Total Restricted	<u>0</u>	<u>2,030,786</u>	<u>2,030,786</u>
Assigned to Other Purposes	326,111	0	326,111
Unassigned	13,262,990	(887,757)	12,375,233
Total Fund Balances	<u>\$13,722,038</u>	<u>\$1,145,249</u>	<u>\$14,867,287</u>

## **MARION CITY SCHOOL DISTRICT, OHIO**

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### ***Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2012***

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#### **NOTE 4 - CASH, CASH EQUIVALENTS AND INVESTMENTS**

Cash resources of several individual funds are combined to form a pool of cash, cash equivalents and investments. In addition, investments are separately held by a number of individual funds.

Statutes require the classification of funds held by the District into three categories. Category 1 consists of “active” funds - those funds required to be kept in a “cash” or “near cash” status for immediate use by the District. Such funds must be maintained either as cash in the District Treasury or in depository accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts.

Category 2 consists of “inactive” funds - those funds not required for use within the current five year period of designation of depositories. Inactive funds may be deposited or invested only as certificates of deposit maturing not later than the end of the current period of designation of depositories.

Category 3 consists of “interim” funds - those funds which are not needed for immediate use but, which will be needed before the end of the current period of designation of depositories. Interim funds may be invested or deposited in the following securities:

- 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 or interest by the United States;
- 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;
- Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
- Interim deposits in eligible institutions applying for interim funds;
- Bonds and other obligations of the State of Ohio;
- No-load money market mutual funds consisting exclusively of obligations described in the first two bullets of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions, and
- The State Treasury Asset Reserve of Ohio (STAR Ohio).
- Commercial Paper and bankers’ acceptances if training requirements have been met.

## **MARION CITY SCHOOL DISTRICT, OHIO**

### ***Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2012***

#### **NOTE 4 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)**

##### **A. Deposits**

Custodial credit risk is the risk that in the event of bank failure, the government's deposits may not be returned. Protection of District cash and deposits is provided by the federal deposit insurance corporation as well as qualified securities pledged by the institution holding the assets. Ohio Law requires that deposits be placed in eligible banks or savings and loan associations located in Ohio. Any public depository in which the District places deposits must pledge as collateral eligible securities of aggregate market value equal to the excess of deposits not insured by the Federal Deposit Insurance Corporation (FDIC). The securities pledged as collateral are pledged to a pool for each individual financial institution in amounts equal to at least 105% of the carrying value of all public deposits held by each institution. Obligations that may be pledged as collateral are limited to obligations of the United States and its agencies and obligations of any state, county, municipal corporation or other legally constituted authority of any other state, or any instrumentality of such county, municipal corporation or other authority. Collateral is held by trustees including the Federal Reserve Bank and designated third party trustees of the financial institutions. The District's policy is to deposit funds with banking institutions which collateralize public monies in accordance with the Ohio Revised Code.

At fiscal year end the carrying amount of the District's deposits was \$16,658,318 and the bank balance was \$17,413,698. Federal depository insurance covered \$7,301,011 of the bank balance and \$10,112,687 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

##### **B. Investments**

The District's investments at June 30, 2012 were as follows:

	Fair Value	Credit Rating	Investment Maturities (in Years)		
			less than 1	1-3	3-5
STAR Ohio	\$21,956	AAA <sup>1</sup>	\$21,956	\$0	\$0
FHLB	149,918	Aaa <sup>2</sup>	0	149,918	0
FFCB	250,003	Aaa <sup>2</sup>	0	250,003	0
FHLB	100,051	Aaa <sup>2</sup>	0	100,051	0
FHLMC	200,239	Aaa <sup>2</sup>	0	200,239	0
U.S. Treasury Note	49,916	Aaa <sup>2</sup>	0	49,916	0
Commercial Paper	184,959	P-1 <sup>2</sup>	184,959	0	0
Bankers Acceptance	62,669	P-1 <sup>2</sup>	62,669	0	0
Total Investments	<u>\$1,019,711</u>		<u>\$269,584</u>	<u>\$750,127</u>	<u>\$0</u>

<sup>1</sup> Standard & Poor's

<sup>2</sup> Moody's Investor Service

## **MARION CITY SCHOOL DISTRICT, OHIO**

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### ***Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2012***

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#### **NOTE 4 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)**

##### **B. Investments** (Continued)

*Interest Rate Risk* – The Ohio Revised Code generally limits security purchases to those that mature within five years of settlement date.

*Investment Credit Risk* – The District has no investment policy that limits its investment choices other than the limitation of State statute for “interim” funds described previously.

*Concentration of Credit Risk* – The District places no limit on the amount the District may invest in one issuer. Of the District’s total investments, 2.2% are STAR Ohio, 14.7% are FHLB, 24.5% are FFCB, 9.8% are FHLB, 19.6% are FHLMC, 4.9% are U.S. Treasury Notes, 18.1% are Commercial Paper and 6.1% are Banker Acceptance.

*Custodial Credit Risk* – The District’s balance of investments are held by the trust department of its banking institution in the District’s name. The District has no policy on custodial credit risk and is governed by Ohio Revised Code as described under Deposits.

#### **NOTE 5 - TAXES**

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

Property taxes include amounts levied against all real estate and public utility property, and tangible personal property used in business and located in the District. Real property taxes (other than public utility) collected during 2012 were levied after April 1, 2011 on assessed values as of January 1, 2011, the lien date. Assessed values are established by the County Auditor at 35 percent of appraised market value. All property is required to be reappraised every six years and equalization adjustments made the third year following reappraisal. The last equalization adjustment was completed in 2010. Real property taxes are payable annually or semi-annually. The first payment is due December 31, with the remainder payable by June 20.

Public utility real and tangible personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year preceding the tax collection year, the lien date. Certain public utility tangible personal property is currently assessed at varying ratios of its true value. Public utility property taxes are payable on the same dates as real property described previously.

The amount available as an advance at June 30, 2012 was \$3,000,346 in the General Fund, \$44,761 in the Classroom Facilities special revenue fund, and \$376,903 in the Bond Retirement debt service fund. The amount available as an advance at June 30, 2011 was \$2,959,964 in the General Fund, \$44,688 in the Classroom Facilities special revenue fund, and \$347,793 in the Bond Retirement debt service fund.

**MARION CITY SCHOOL DISTRICT, OHIO**

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**Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012**

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**NOTE 5 - TAXES (Continued)**

The County Treasurer collects property taxes on behalf of all taxing districts in the County including Marion City School District. The County Auditor periodically remits to the District its portion of the taxes collected. The assessed values for collection in 2012 were as follows:

	2011 Second Half Collections	2012 First Half Collections
Agricultural/Residential and Other Real Estate	\$315,307,010	\$312,689,800
Public Utility Personal	24,503,500	24,557,520
Total Assessed Value	\$339,810,510	\$337,247,320
Tax rate per \$1,000 of assessed valuation	\$40.36	\$41.25

**NOTE 6 - INTERFUND RECEIVABLES/PAYABLES**

Interfund loans receivable/payable – short-term loans at June 30, 2012 from one individual fund to another are as follows:

	Interfund Loan Receivable	Interfund Loan Payable
General Fund	\$905,421	\$0
Other Governmental Funds	0	905,421
Totals	\$905,421	\$905,421

These Interfund Loans are short-term loans to cover a temporary cash deficit.

**NOTE 7 - TRANSFERS**

Following is a summary of transfers in and out for all funds at June 30, 2012:

	Transfers In:	
Transfers Out:	Other Governmental Funds	Total
General Fund	\$75,000	\$75,000

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

## **MARION CITY SCHOOL DISTRICT, OHIO**

### ***Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2012***

#### **NOTE 8 – PAYMENT IN LIEU OF TAXES**

According to State law, the City of Marion has entered into agreements with a number of property owners under which the City has granted property tax exemptions to those property owners. The property owners have agreed to make payments to the City which reflect all or a portion of the property taxes which the property owners would have paid if their taxes had not been exempted. The agreements require a portion of these payments to be made to the School District. The property owners contractually promise to make these payments in lieu of taxes until the agreement expires.

#### **NOTE 9 - CAPITAL ASSETS**

##### **A. Governmental Activities Capital Assets**

Summary by category of changes in governmental activities capital assets at June 30, 2012:

##### ***Historical Cost:***

<u>Class</u>	<u>June 30, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2012</u>
<b><i>Capital assets not being depreciated:</i></b>				
Land	\$1,965,229	\$0	\$0	\$1,965,229
	1,965,229	0	0	1,965,229
<b><i>Capital assets being depreciated:</i></b>				
Land Improvements	957,587	0	0	957,587
Buildings and Improvements	90,753,743	0	0	90,753,743
Machinery and Equipment	801,979	1,701,870	0	2,503,849
Vehicles	1,649,083	52,925	0	1,702,008
Total Cost	<u>\$96,127,621</u>	<u>\$1,754,795</u>	<u>\$0</u>	<u>\$97,882,416</u>

##### ***Accumulated Depreciation:***

<u>Class</u>	<u>June 30, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2012</u>
Land Improvements	(\$306,770)	(\$35,057)	\$0	(\$341,827)
Buildings and Improvements	(14,875,666)	(1,771,102)	0	(16,646,768)
Machinery and Equipment	(269,228)	(203,041)	0	(472,269)
Vehicles	(887,839)	(102,143)	0	(989,982)
Total Depreciation	<u>(\$16,339,503)</u>	<u>(\$2,111,343) *</u>	<u>\$0</u>	<u>(\$18,450,846)</u>
<b><i>Net Value:</i></b>	<u>\$79,788,118</u>			<u>\$79,431,570</u>

**MARION CITY SCHOOL DISTRICT, OHIO**

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**Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012**

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**NOTE 9 - CAPITAL ASSETS (Continued)**

**A. Governmental Activities Capital Assets (Continued)**

\* Depreciation expenses were charged to governmental functions as follows:

Instruction	\$1,571,743
Support Services:	
Pupils	22,078
Instructional Staff	85,521
Administration	107,705
Fiscal Services	2,778
Operations & Maintenance of Plant	89,270
Pupil Transportation	89,669
Extracurricular Activities	142,579
Total Depreciation Expense	\$2,111,343

**B. Business-Type Activities Capital Assets**

Summary by Category at June 30, 2012:

***Historical Cost:***

Class	June 30, 2011	Additions	Deletions	June 30, 2012
<b><i>Capital assets not being depreciated:</i></b>				
Land	\$151,853	\$0	\$0	\$151,853
<b><i>Capital assets being depreciated:</i></b>				
Buildings and Improvements	8,616,936	0	0	8,616,936
Machinery and Equipment	13,992	0	0	13,992
Total Cost	\$8,782,781	\$0	\$0	\$8,782,781

***Accumulated Depreciation:***

Class	June 30, 2011	Additions	Deletions	June 30, 2012
Buildings and Improvements	(\$1,376,952)	(\$169,686)	\$0	(\$1,546,638)
Machinery and Equipment	(1,516)	(1,399)	0	(2,915)
Total Depreciation	(\$1,378,468)	(\$171,085)	\$0	(\$1,549,553)
<b><i>Net Value:</i></b>	\$7,404,313			\$7,233,228

## **MARION CITY SCHOOL DISTRICT, OHIO**

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### ***Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2012***

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#### **NOTE 10 - RECEIVABLES**

Receivables at June 30, 2012 consisted of interfund loans, taxes, accounts, intergovernmental, interest, and payments in lieu of taxes receivable.

#### **NOTE 11 - DEFINED BENEFIT PENSION PLANS**

All of the District's full-time employees participate in one of two separate retirement systems which are cost-sharing, multiple-employer defined benefit pension plans.

##### **A. School Employee Retirement System**

Plan Description - The District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer pension plan. SERS provides retirement 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 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 can be obtained on SERS' website, [www.ohsers.org](http://www.ohsers.org), under Employers/Audit Resources.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2012, the allocation to pension and death benefits was 12.7 percent. The remaining 1.3 percent of the 14 percent employer contribution rate is allocated to the Medicare B and Health Care funds. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2012, 2011 and 2010 were \$708,833, \$562,869 and \$602,019 respectively; 35% has been contributed for fiscal year 2012 and 100% for fiscal years 2011 and 2010.

##### **B. State Teachers Retirement System**

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

## **MARION CITY SCHOOL DISTRICT, OHIO**

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### ***Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2012***

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#### **NOTE 11 - DEFINED BENEFIT PENSION PLANS (Continued)**

##### **B. State Teachers Retirement System (Continued)**

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

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

Funding Policy - For the fiscal year ended June 30, 2012, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2011, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2012, 2011, and 2010 were \$3,012,752, \$2,966,568, and \$2,939,584 respectively; 83% has been contributed for fiscal year 2012 and 100% for fiscal years 2011 and 2010. Contributions to the DC and Combined Plans for the fiscal year 2012 were \$75,805 made by the District and \$54,147 made by the plan members.

## **MARION CITY SCHOOL DISTRICT, OHIO**

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### ***Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2012***

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#### **NOTE 12 - POSTEMPLOYMENT BENEFITS**

##### **A. School Employee Retirement System**

Plan Description – The District participates in two cost-sharing multiple employer defined benefit OPEB plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by the SERS based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website, [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

Funding Policy – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2012, 0.55 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2012, this amount was \$35,800.

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

The District's contributions for health care for the fiscal years ended June 30, 2012, 2011, and 2010 were \$27,847, \$68,154, and \$21,669 respectively; 35% has been contributed for fiscal year 2012 and 100% for fiscal years 2011 and 2010.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2012, this actuarially required allocation was 0.75 percent of covered payroll. The District's contributions for Medicare Part B for the fiscal years ended June 30, 2012, 2011, and 2010 were \$37,973, \$36,222, and \$35,801 respectively; 35% has been contributed for fiscal year 2012 and 100% for fiscal years 2011 and 2010.

##### **B. State Teachers Retirement System**

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

## **MARION CITY SCHOOL DISTRICT, OHIO**

### **Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2012**

#### **NOTE 12 - POSTEMPLOYMENT BENEFITS (Continued)**

##### **B. State Teachers Retirement System (Continued)**

Funding Policy – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2012, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The District's contributions for health care for the fiscal years ended June 30, 2012, 2011, and 2010 were \$215,196, \$235,208 and \$234,395 respectively; 83% has been contributed for fiscal year 2012 and 100% for fiscal years 2011 and 2010.

#### **NOTE 13 - LONG-TERM DEBT AND OTHER OBLIGATIONS**

Detail of the changes in the long term debt of the District for the year ended June 30, 2012 is as follows:

		Balance			Balance	Amount Due
		June 30, 2011	Additions	Deductions	June 30, 2012	Within One Year
<b>Governmental Activities:</b>						
General Obligation Bonds:						
2001 School Facilities Construction						
Serial Bonds	4.375-6.5%	\$2,865,000	\$0	(\$650,000)	\$2,215,000	\$695,000
2007 School Facilities Construction						
Serial Bonds	4.0-5.0%	7,035,000	0	(150,000)	6,885,000	155,000
Capital Appreciation Bonds		805,000	0	0	805,000	0
Accretion on Capital						
Appreciation Bonds		388,232	121,640	0	509,872	0
Bond Premium		574,324	0	(10,988)	563,336	0
Accounting Loss		(437,705)	8,374	0	(429,331)	0
Total School Facility Construction Serial Bonds		<u>8,364,851</u>	<u>130,014</u>	<u>(160,988)</u>	<u>8,333,877</u>	<u>155,000</u>
Total General Obligation Bonds		11,229,851	130,014	(810,988)	10,548,877	850,000
General Obligation Note:						
Energy Conservation 3.00%		0	1,823,390	0	1,823,390	97,510
Capital Leases Payable		123,656	0	(29,173)	94,483	31,841
Compensated Absences		3,744,355	325,648	(615,907)	3,454,096	316,894
Total Governmental Activities		<u>15,097,862</u>	<u>2,279,052</u>	<u>(1,456,068)</u>	<u>15,920,846</u>	<u>1,296,245</u>
<b>Business-Type Activities:</b>						
Compensated Absences		57,938	16,059	(14,187)	59,810	7,383
Total Long-Term Debt and Other Obligations		<u>\$15,155,800</u>	<u>\$2,295,111</u>	<u>(\$1,470,255)</u>	<u>\$15,980,656</u>	<u>\$1,303,628</u>

## **MARION CITY SCHOOL DISTRICT, OHIO**

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### ***Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2012***

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#### **NOTE 13 - LONG-TERM DEBT AND OTHER OBLIGATIONS (Continued)**

**2001 School Facilities Construction Bonds** – On August 1, 2000, the School District issued \$15,910,000 in voted general obligation bonds for constructing a new high school building and three new elementary school buildings, as well as renovating, remodeling, and improving existing school buildings. The bond issue included serial and term bonds, in the amount of \$11,740,000 and \$4,170,000, respectively. The bonds were issued for a twenty-two year period, with final maturity in fiscal year 2023. During fiscal year 2007, a portion of the serial bonds and all of the term bonds, in the amount of \$3,930,000 and \$4,170,000, respectively, was advanced refunded. The remaining bonds are being retired through the Bond Retirement debt service fund. A portion of these bonds were used to acquire unrelated capital assets and, therefore, are reflected as unrestricted net assets, in the amount of \$257,850.

**2007 School Facilities Construction Refunding Bonds** – On June 12, 2007, the School District issued bonds in the amount of \$8,100,000, to partially refund bonds previously issued in fiscal year 2001 for constructing a new high school and three new elementary school buildings, as well as renovating, remodeling, and improving existing school buildings. The refunding bond issue includes serial and capital appreciation bonds, in the original amount of \$7,295,000 and \$805,000, respectively. The bonds were issued for a sixteen year period, with final maturity in fiscal year 2023. The bonds will be retired through the Bond Retirement debt service fund. A portion of these bonds were used to acquire unrelated capital assets and, therefore, are reflected as unrestricted net assets, in the amount of \$717,892.

The serial bonds are subject to optional redemption, by and at the sole option of the School District, either in whole or in part and in integral multiples of \$5,000, on any date on or after December 1, 2017, at a redemption price of 100 percent of the principal amount redeemed plus accrued interest to the redemption date.

The capital appreciation bonds are not subject to prior redemption. The capital appreciation bonds will mature on December 1, 2015, and December 1, 2016, in the amount of \$960,000 and \$960,000, respectively. For fiscal year 2012, \$121,640 was accreted on the capital appreciation bonds for a total bond value of \$1,314,872 at fiscal year end.

The refunded bonds have been fully retired.

**2012 Energy Conservation Notes** – On December 14, 2011, the School District issued notes in the amount of \$1,823,390, to be used to assist the School District in reducing energy costs through energy conservation measures. The notes are to be paid off over a fifteen year period at an interest rate of 3%. The notes are set to mature on December 1, 2026.

The District's overall debt margin was \$20,718,434 with an unvoted debt margin of \$337,247 at June 30, 2012.

**MARION CITY SCHOOL DISTRICT, OHIO**

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**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2012**

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**NOTE 13 - LONG-TERM DEBT AND OTHER OBLIGATIONS (Continued)**

**A. Principal and Interest Requirements**

A summary of the District's future long-term debt funding requirements including principal and interest payments as of June 30, 2012, follows:

Years	Principal	General Obligation Bonds		Total
		Capital Appreciation	Interest	
2013	\$850,000	\$0	\$402,746	\$1,252,746
2014	895,000	0	350,328	1,245,328
2015	955,000	0	294,513	1,249,513
2016	0	420,000	805,600	1,225,600
2017	0	385,000	840,600	1,225,600
2018-2022	5,225,000	0	779,500	6,004,500
2023	1,175,000	0	23,500	1,198,500
Totals	\$9,100,000	\$805,000	\$3,496,787	\$13,401,787

General Obligation Note			
Years	Principal	Interest	Total
2013	\$97,510	\$27,799	\$125,309
2014	100,650	52,614	153,264
2015	103,729	49,534	153,263
2016	106,901	46,362	153,263
2017	110,168	43,096	153,264
2018-2022	603,371	162,942	766,313
2023-2027	701,061	65,252	766,313
Totals	\$1,823,390	\$447,599	\$2,270,989

## **MARION CITY SCHOOL DISTRICT, OHIO**

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### ***Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2012***

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#### **NOTE 14 - CAPITAL LEASES**

The School District has entered into capitalized leases for equipment. Each lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments are reflected as debt service expenditures on the statement of revenues, expenditures, and changes in fund balances for the governmental funds. Principal payments in 2012 were \$29,173.

The following is a schedule of future minimum lease payments under the capital leases together with the present value of the net minimum lease payments as of June 30, 2012:

<u>Year Ending December 31,</u>	<u>Capital Lease</u>
2013	\$40,141
2014	33,955
2015	23,924
2016	<u>12,869</u>
Minimum Lease Payments	110,889
Less amount representing interest at the City's incremental borrowing rate of interest	<u>(16,406)</u>
Present value of minimum lease payments	<u><u>\$94,483</u></u>

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## **MARION CITY SCHOOL DISTRICT, OHIO**

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### ***Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2012***

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#### **NOTE 15 - RISK MANAGEMENT**

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. During fiscal year 2012, the School District contracted for the following insurance coverage:

Type of Coverage	Coverage
Buildings and Contents – replacement cost	\$178,530,510
Auto Liability	1,000,000
General Liability	
Each Occurrence	1,000,000
Aggregate	2,000,000
Excess Liability	5,000,000

There has been no significant reduction in insurance coverages from coverages in the prior year. In addition, settled claims resulting from these risks have not exceeded commercial insurance coverages in any of the past three fiscal years.

The School District participates in the Ohio Association of School Business Officials Workers' Compensation Group Rating Plan (Plan), an insurance purchasing pool. The intent of the Plan is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the Plan. The third party administrator, Sheakley Uniservice, Inc., reviews each participants' claims experience and determines the rating tier for that participant. A common premium rate is applied to all participants in a given rating tier. Each participant pays its workers' compensation premium to the State based on the rate for their rating tier rather than its individual rate. Sheakley Uniservice, Inc. provides administrative, cost control, and actuarial services to the Plan.

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## **MARION CITY SCHOOL DISTRICT, OHIO**

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### ***Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2012***

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#### **NOTE 16 – STATUTORY RESERVES**

The District is required by state law to set aside certain general fund revenue amounts, as defined, into various reserves. During the fiscal year ended June 30, 2012, the reserve activity (cash-basis) was as follows:

	<u>Capital Maintenance</u>
Set-aside Balance as of June 30, 2012	\$0
Current Year Set-Aside Requirement	730,290
Current Year Offset Credits	(730,290)
Qualifying Disbursements	<u>0</u>
Total	<u>\$0</u>
Set-aside Balance Carried Forward to FY 2013	<u>\$0</u>

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

Beginning in FY 2012, H.B. 30 of the Ohio 129th General Assembly has repealed ORC Section 3315.17 which required school districts to annually set aside funds for acquisition of textbooks and instructional materials. Additionally, Section 267.60.10 of Am. Sub. H. B. 153 provides for school districts' boards of education to transfer any unencumbered money remaining as of July 1, 2011, in the textbook and instructional materials fund to the districts' general revenue fund to be used for any purpose authorized for the general revenue fund.

#### **NOTE 17 – JOINTLY GOVERNED ORGANIZATIONS**

##### **A. Tri-Rivers Educational Computer Association**

The School District is a participant in the Tri-Rivers Educational Computer Association (TRECA), which is a computer consortium. TRECA is an association of public school districts within the boundaries of Delaware, Knox, Marion, Morrow, Muskingum, and Wyandot Counties. The 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. The governing board of TRECA consists of one representative from each County elected by majority vote of all charter member school districts within each County, one representative from the City school districts, and the superintendent from Tri-Rivers Joint Vocational School. During fiscal year 2012, the School District paid \$86,047 to TRECA for various services. Financial information can be obtained from TRECA, 100 Executive Drive, Marion, Ohio 43302.

## **MARION CITY SCHOOL DISTRICT, OHIO**

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### ***Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2012***

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#### **NOTE 17 – JOINTLY GOVERNED ORGANIZATIONS (Continued)**

##### **B. Tri-Rivers Joint Vocational School**

The Tri-Rivers Joint Vocational School (JVS) is a distinct political subdivision of the State of Ohio which provides vocational education. The JVS operates under the direction of a Board consisting of one representative from each of the ten participating school districts' Board of Education. The Board possesses its own budgeting and taxing authority. The degree of control exercised by the School District is limited to its representation on the Board. Financial information can be obtained from the Tri-Rivers Joint Vocational School, 2222 Marion Mt. Gilead Road, Marion, Ohio 43302.

#### **NOTE 18 – RELATED ORGANIZATION**

The Marion Public Library is a distinct political subdivision of the State of Ohio created under Chapter 3375 of the Ohio Revised Code. The Library is governed by a Board of Trustees appointed by the Marion City Board of Education. The Board of trustees possesses its own contracting and budgeting authority, hires and fires personnel, and does not depend on the School District for operational subsidies. Although the School District serves as the taxing authority, its role is limited to a ministerial function. The determination to request approval of a tax, the rate, and the purpose are discretionary decisions made solely by the Board of Trustees. Financial information can be obtained from the Marion Public Library, 445 East Church Street, Marion, Ohio 43302.

#### **NOTE 19 – DONOR RESTRICTED ENDOWMENTS**

The School District's private purpose trust fund includes donor restricted endowments. Endowments, in the amount of \$100,072 represent the principal portion. The amount of net appreciation in donor restricted investments that is available for expenditures by the School District is \$7,063 and is included as held in trust for scholarships. State law permits the School District to appropriate, for purposes consistent with the endowment's intent, net appreciation, realized and unrealized, unless the endowment terms specify otherwise. The endowment indicates that the interest should be used to provide a scholarship each year.

## **MARION CITY SCHOOL DISTRICT, OHIO**

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### ***Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2012***

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#### **NOTE 20 - CONTINGENCIES**

##### **A. Grants**

The District receives financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is 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 District at June 30, 2012.

##### **B. Litigation**

There are currently no matters in litigation with the School District as a defendant.

##### **C. Full Time Equivalency**

The Auditor of State (AOS) issued its Statewide Audit of Student Attendance Data and Accountability System on February 11, 2013, a statewide assessment of school year 2010-11 student attendance and enrollment practices for select Ohio schools. AOS has referred the Marion City School District as a district with evidence of scrubbing to the Ohio Department of Education (ODE) and U.S. Department of Education Office of the Inspector General (IG) for further investigation and recalculation of the school report cards. The ODE and IG have not yet determined the impact of these results.

## **MARION CITY SCHOOL DISTRICT, OHIO**

### ***Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2012***

#### **NOTE 21 – MARION CITY DIGITAL ACADEMY**

##### **A. Basis of Presentation**

Marion City Digital Academy is accounted for using a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities are included on the statement of net assets. Marion City Digital Academy uses the full accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and expenses are recognized at the time they are incurred.

##### **B. Deposits**

At fiscal year end, the carrying amount of MCDA's deposits was \$563,123. At fiscal year end, \$250,000 of MCDA's bank balance of \$600,829 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject MCDA to a successful claim by the FDIC.

##### **C. Capital Assets**

Summary by Category at June 30, 2012:

###### ***Historical Cost:***

<u>Class</u>	<u>June 30, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2012</u>
<b><i>Capital assets being depreciated:</i></b>				
Machinery and Equipment	\$178,148	\$0	\$0	\$178,148
Total Cost	<u>\$178,148</u>	<u>\$0</u>	<u>\$0</u>	<u>\$178,148</u>

###### ***Accumulated Depreciation:***

<u>Class</u>	<u>June 30, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2012</u>
Machinery and Equipment	(\$167,983)	(\$3,648)	\$0	(\$171,631)
Total Depreciation	<u>(\$167,983)</u>	<u>(\$3,648)</u>	<u>\$0</u>	<u>(\$171,631)</u>
<b><i>Net Value:</i></b>	<u>\$10,165</u>			<u>\$6,517</u>

##### **D. Related Party Transaction**

In fiscal year 2012, the Marion City School District received \$549,170 from MCDA. This represents payments for administrative services provided by Marion City School District to MCDA and reimbursements for supplies and equipment purchases made by Marion City School District for MCDA.

## **MARION CITY SCHOOL DISTRICT, OHIO**

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### ***Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2012***

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#### **NOTE 22 – RUSHMORE ACADEMY**

##### **A. Basis of Presentation**

Rushmore Academy is accounted for using a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities are included on the statement of net assets. Rushmore Academy uses the full accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and expenses are recognized at the time they are incurred.

##### **B. Deposits**

At fiscal year end, the carrying amount of the Academy's deposits was \$773,843 and the bank balance was \$774,085. The Federal Deposit Insurance Corporation (FDIC) covered \$250,000 of the bank balance. The remaining \$524,085 was uninsured and collateralized with securities held by the pledging institution's trust department, not in the Academy's name.

##### **C. Capital Assets**

Summary by Category at June 30, 2012:

###### ***Historical Cost:***

<u>Class</u>	<u>June 30, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2012</u>
<b><i>Capital assets being depreciated:</i></b>				
Machinery and Equipment	\$214,399	\$8,588	\$0	\$222,987
Total Cost	<u>\$214,399</u>	<u>\$8,588</u>	<u>\$0</u>	<u>\$222,987</u>

###### ***Accumulated Depreciation:***

<u>Class</u>	<u>June 30, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2012</u>
Machinery and Equipment	(\$53,829)	(\$41,925)	\$0	(\$95,754)
Total Depreciation	<u>(\$53,829)</u>	<u>(\$41,925)</u>	<u>\$0</u>	<u>(\$95,754)</u>
<b><i>Net Value:</i></b>	<u>\$160,570</u>			<u>\$127,233</u>

##### **D. Related Party Transaction**

In fiscal year 2012, the Marion City School District received \$883,203 from the Academy. This represents payments for administrative and support services provided by Marion City School District to the Academy and reimbursements for supplies and equipment purchases made by Marion City School District for the Academy.

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**MARION CITY SCHOOL DISTRICT  
MARION COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2012**

<b>FEDERAL GRANTOR</b> <i>Pass Through Grantor</i> Program Title	Federal CFDA Number	Receipts	Disbursements
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
<i>Passed Through Ohio Department of Education</i>			
Child Nutrition Cluster:			
Non - Cash Assistance (Food Distribution):			
National School Lunch Program	10.555	\$ 74,092	\$ 74,092
Cash Assistance:			
School Breakfast Program	10.553	466,781	466,781
National School Lunch Program	10.555	1,237,436	1,237,436
Summer Food Service Program for Children	10.559	117,369	117,369
Cash Assistance Subtotal:		<u>1,821,586</u>	<u>1,821,586</u>
Total Child Nutrition Cluster		1,895,678	1,895,678
Team Nutrition Grants	10.574	1,300	700
<b>Total U.S. Department of Agriculture</b>		<u><b>1,896,978</b></u>	<u><b>1,896,378</b></u>
<b>U.S. DEPARTMENT OF EDUCATION</b>			
<i>Passed Through Ohio Department of Education</i>			
Title I Cluster			
Title I Grants to Local Educational Agencies	84.010	2,060,425	2,499,462
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	64,705	57,445
Total Title I Cluster		<u>2,125,130</u>	<u>2,556,907</u>
Special Education Cluster			
Special Education_Grants to States	84.027	1,204,517	1,178,503
Special Education_Preschool Grants	84.173	52,320	44,860
ARRA-Special Education_Grants to States, Recovery Act	84.391	43,469	61,350
ARRA - Special Education_Preschool Grants, Recovery Act	84.392	1,828	13,779
Total Special Education Cluster		<u>1,302,134</u>	<u>1,298,492</u>
Education Technology State Grants Cluster			
Education Technology State Grants	84.318	4,182	10,711
ARRA - Education Technology State Grants, Recovery Act	84.386	8,401	13,408
Total Education Technology State Grants Cluster		<u>12,583</u>	<u>24,119</u>
English Language Acquisition State Grants	84.365	-	164
Improving Teacher Quality State Grants	84.367	221,963	227,422
ARRA - State Fiscal Stabilization Fund (SFSF) - Race to the Top Incentive Grants, Recovery Act	84.395	204,084	288,678
Education Jobs Fund	84.410	916,990	1,506,183
<b>Total U.S. Department of Education</b>		<u><b>4,782,884</b></u>	<u><b>5,901,965</b></u>
<b>Total</b>		<u><b>\$ 6,679,862</b></u>	<u><b>\$ 7,798,343</b></u>

*The accompanying notes are an integral part of this schedule.*

**MARION CITY SCHOOL DISTRICT  
MARION COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE  
FISCAL YEAR ENDED JUNE 30, 2012**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Federal Awards Receipts and Expenditures Schedule (the Schedule) reports Marion City School District's (the District's) federal award programs' receipts and disbursements. The schedule has been prepared on the cash basis of accounting.

**NOTE B - CHILD NUTRITION CLUSTER**

The District commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the District assumes it expends federal monies first.

**NOTE C – FOOD DONATION PROGRAM**

The District reports commodities consumed on the Schedule at the entitlement value. The District allocated donated food commodities to the program that benefitted from the use of those donated food commodities.



# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY GOVERNMENT AUDITING STANDARDS

Marion City School District  
Marion County  
420 Presidential Dr. Suite B  
Marion, Ohio 43302

To the Board of Education:

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Marion City School District, Marion County, Ohio, (the District) as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements and have issued our report thereon dated April 15, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of opining on the effectiveness of the District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the District's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

### **Compliance and Other Matters**

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect 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 an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We did note certain matters not requiring inclusion in this report that we reported to the District's management in a separate letter dated April 15, 2013.

We intend this report solely for the information and use of management, the Board of Education, federal awarding agencies, pass-through entities, and others within the District. We intend it for no one other than these specified parties.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

**Dave Yost**  
Auditor of State

April 15, 2013



# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Marion City School District  
Marion County  
420 Presidential Dr. Suite B  
Marion, Ohio 43302

To the Board of Education:

### Compliance

We have audited the compliance of Marion City School District, Marion County, Ohio (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of the District's major federal programs for the year ended June 30, 2012. The *summary of auditor's results* section of the accompanying schedule of findings and questioned costs identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to opine on the District's compliance based on our audit.

Our compliance audit followed auditing standards generally accepted in the United States of America; the standards applicable to financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the District's compliance with these requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with these requirements.

As described in finding 2012-001 in the accompanying schedule of findings and questioned costs, the District did not comply with the requirements regarding allowable costs/cost principles applicable to its Title I Cluster major federal program. Compliance with this requirement is necessary, in our opinion, for the District to comply with requirements applicable to this program.

In our opinion, except for the noncompliance described in the preceding paragraph, the Marion City School District, Marion County, Ohio, complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2012.

### Internal Control Over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could directly and materially affect a major federal program, to determine our auditing procedures for the purpose of expressing our opinion on compliance, and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, we cannot assure we have identified all deficiencies, significant deficiencies, or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2012-001 to be a material weakness.

The District's response to the finding we identified is described in the accompanying schedule of findings and questioned costs. We did not audit the District's response and, accordingly, we express no opinion on it.

We also noted matters involving federal compliance or internal control over federal compliance not requiring inclusion in this report, that we reported to the District's management in a separate letter dated April 15, 2013.

We intend this report solely for the information and use of the management, the Board of Education, others within the District, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



**Dave Yost**  
Auditor of State

April 15, 2013

**MARION CITY SCHOOL DISTRICT  
MARION COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2012**

**1. SUMMARY OF AUDITOR'S RESULTS**

<b>(d)(1)(i)</b>	<b>Type of Financial Statement Opinion</b>	Unqualified
<b>(d)(1)(ii)</b>	<b>Were there any material control weaknesses reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(ii)</b>	<b>Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(iii)</b>	<b>Was there any reported material noncompliance at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(iv)</b>	<b>Were there any material internal control weaknesses reported for major federal programs?</b>	Yes
<b>(d)(1)(iv)</b>	<b>Were there any significant deficiencies in internal control reported for major federal programs?</b>	No
<b>(d)(1)(v)</b>	<b>Type of Major Programs' Compliance Opinion</b>	Unqualified – all major programs except Title I Cluster  Qualified – Title I Cluster
<b>(d)(1)(vi)</b>	<b>Are there any reportable findings under § .510(a)?</b>	Yes
<b>(d)(1)(vii)</b>	<b>Major Programs (list):</b>	<u>Title I Cluster</u> CFDA #84.010 – Title I Grants to Local Educational Agencies CFDA #84.389 – ARRA-Title I Grants to Local Educational Agencies, Recovery Act

**MARION CITY SCHOOL DISTRICT  
MARION COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2012  
(Continued)**

**1. SUMMARY OF AUDITOR'S RESULTS (Continued)**

<b>(d)(1)(vii)</b>	<b>Major Programs (list):</b>	<u>Special Education Cluster</u> CFDA #84.027 – Special Education_Grants to States CFDA #84.173 – Special Education Preschool Grants CFDA #84.391 – ARRA-Special Education Grants to States, Recovery Act CFDA #84.392 – ARRA-Special Education Preschool Grants, Recovery Act  CFDA #84.410 - Education Jobs Fund  CFDA #84.367 – Improving Teacher Quality State Grants
<b>(d)(1)(viii)</b>	<b>Dollar Threshold: Type A/B Programs</b>	Type A: > \$ 300,000 Type B: all others
<b>(d)(1)(ix)</b>	<b>Low Risk Auditee?</b>	No

**MARION CITY SCHOOL DISTRICT  
MARION COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2012  
(Continued)**

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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None

<b>3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS</b>
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<b>Finding Number</b>	2012-001
<b>CFDA Title and Number</b>	CFDA #84.010 – Title I Grants to Local Educational Agencies CFDA #84.389 – ARRA-Title I Grants to Local Educational Agencies, Recovery Act
<b>Federal Award Number / Year</b>	2011 / 2012
<b>Federal Agency</b>	U.S. Department of Education
<b>Pass-Through Agency</b>	Ohio Department of Education

**Material Noncompliance / Material Weakness / Questioned Costs  
Allowable Costs/Cost Principles**

2 C.F.R. Part 225, Appendix B (8)(h) states that the following standards regarding time distribution are in addition to the standards for payroll documentation:

1. Charges to Federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official(s) of the governmental unit.
2. No further documentation is required for the salaries and wages of employees who work in a single indirect cost activity.
3. Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having firsthand knowledge of the work performed by the employee.
4. Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) below unless a statistical sampling system or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on:
  - a. More than one Federal award,
  - b. A Federal award and a non-federal award,
  - c. An indirect cost activity and a direct cost activity,
  - d. Two or more indirect activities which are allocated using different allocation bases, or
  - e. An unallowable activity and a direct or indirect cost activity.
5. Personnel activity reports or equivalent documentation must meet the following standards:
  - a. They must reflect an after-the-fact distribution of the actual activity of each employee,
  - b. They must account for the total activity for which each employee is compensated,
  - c. They must be prepared at least monthly and must coincide with one or more pay periods, and
  - d. They must be signed by the employee.

**MARION CITY SCHOOL DISTRICT  
MARION COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2012  
(Continued)**

<b>3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)</b>
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<b>Finding Number</b>	2012-001 (Continued)
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**Material Noncompliance / Material Weakness / Questioned Costs  
Allowable Costs/Cost Principles (Continued)**

- e. Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards but may be used for interim accounting purposes, provided that:
  - i. The governmental unit's system for establishing the estimates produces reasonable approximations of the activity actually performed;
  - ii. At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to Federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and
  - iii. The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances.

During fiscal year 2012, the District allocated the Director of State & Federal Programs', the Secretary of State & Federal Programs', and the District Data Manager's salaries to the General Fund and various state and federal grant funds based on budget estimates determined at the beginning of the fiscal year. Although personal activity reports were prepared for these employees, the reports: 1) either documented spending equal amounts of time on the same programs each day or pay period (percentages based on the budget estimates determined at the beginning of the fiscal year) and/or 2) were not compared to budgeted distributions and adjusted accordingly. Of the amount tested, \$6,848 was charged to the Title I Cluster, resulting in likely questioned costs exceeding \$10,000.

We recommend that the District follow the compliance requirements included in 2 C.F.R. Part 225, Appendix B to ensure the allowability of payroll charged to federal programs.

**Officials' Response and Corrective Action Plan:**

2 C.F.R. Part 225 Part 225 Appendix B (8)(h): fy 2012 documentation was based on past practice that has never been called into question until the fy 2011 audit.

The audit report was received too late to make corrections for the fy 2013.

Beginning fy 2013, for employees paid from multiple federal funds, documentation will be kept by month of actual time worked on each project. Time sheets will be reviewed quarterly between budgeted and actual time with revisions made as necessary.

All documentation collected under this section will meet the following standards:

- They will reflect an after-the fact distribution,
- They will account for the total activity for which the employee is compensated,
- They will be prepared at least monthly and will coincide with one or more pay periods and
- They will be signed by the employee.

The contact for the finding is Robert Wood, Treasurer & Miles Burson, Dir. of State & Federal Programs.

**MARION CITY SCHOOL DISTRICT  
MARION COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS  
OMB CIRCULAR A -133 § .315 (b)  
JUNE 30, 2012**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2011-001	Material Noncompliance/Material Weakness – Allowable Costs/Cost Principles	No	Partially Corrected; comment being repeated in the current audit management letter.
2011-002	Questioned Costs/Material Noncompliance/Material Weakness – Period of Availability	Yes	
2011-003	Questioned Costs/Material Noncompliance/Material Weakness – Allowable Cost/Cost Principles	No	Partially Corrected; similar comment repeated in current audit as Finding 2012-001.
2011-004	Questioned Costs/Material Noncompliance/Material Weakness – Activities Allowed/Unallowed, Allowable Cost/Cost Principles, & Period of Availability	Yes	

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# Dave Yost • Auditor of State

**MARION CITY SCHOOL DISTRICT**

**MARION 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  
MAY 28, 2013**