



Dave Yost • Auditor of State

**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

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**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

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

To the Board of Education:

Report on the Financial Statements

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 the Marion City School District, Marion County, Ohio (the District), as of and for the year ended June 30 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the District's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

Opinion

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, 2013, 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 accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *Management's Discussion and Analysis*, 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 applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Supplementary and Other Information

Our audit was conducted to opine on the District's basic financial statements taken as a whole.

The Schedule of Federal Award Receipts and Expenditures presents additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and is also not a required part of the financial statements.

The schedule is management's responsibility, and derives from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected this schedule to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling the schedule 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 schedule is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 5, 2014, 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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

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
Columbus, Ohio

March 5, 2014

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MARION CITY SCHOOL DISTRICT, OHIO

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013*

Unaudited

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, 2013. 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 2013 are as follows:

- ❑ In total, net position decreased \$1,670,212. Net position of governmental activities decreased \$1,728,619, which represents a 2.1% decrease from 2012. Net position of business-type activities increased \$58,407, a slight increase from 2012.
- ❑ General revenues accounted for \$40,092,015, or 74% of all revenues. Program specific revenues in the form of charges for services and sales and grants and contributions accounted for \$14,031,827 or 26% of total revenues of \$54,123,842.
- ❑ The District had \$53,266,562 in expenses related to governmental activities; only \$11,445,928 of these expenses were offset by program specific charges for services and sales, grants or contributions. General revenues (primarily taxes) of \$40,092,015 were adequate to provide for these programs.
- ❑ Among major funds, the general fund had \$45,015,282 in revenues and \$46,878,133, including transfers out, in expenditures. The general fund's fund balance decreased from a balance of \$13,722,038 to an ending balance of \$12,132,949.
- ❑ Net position of the enterprise fund increased \$58,407.

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

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013*

Unaudited

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 position includes all of the District's assets, deferred outflows of resources, liabilities and deferred inflows of resources. 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 position and how they have changed. Net position (the difference between the District's assets plus deferred outflows of resources and liabilities plus deferred inflows of resources) is one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net position 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 Position 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, 2013

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 Position and Changes in Fiduciary Net Position. 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 position for 2013 compared to 2012:

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Current and other assets	\$29,923,597	\$30,824,351	\$1,187,885	\$982,067	\$31,111,482	\$31,806,418
Capital assets, Net	77,605,969	79,431,570	7,136,574	7,233,228	84,742,543	86,664,798
Total assets	<u>107,529,566</u>	<u>110,255,921</u>	<u>8,324,459</u>	<u>8,215,295</u>	<u>115,854,025</u>	<u>118,471,216</u>
Deferred Charge on Debt Refunding	420,677	0	0	0	420,677	0
Long-term Liabilities	15,202,486	15,920,846	67,332	59,810	15,269,818	15,980,656
Current and other liabilities	6,152,567	11,625,546	207,305	164,070	6,359,872	11,789,616
Total liabilities	<u>21,355,053</u>	<u>27,546,392</u>	<u>274,637</u>	<u>223,880</u>	<u>21,629,690</u>	<u>27,770,272</u>
Property Tax Levy for Next Fiscal Year	5,614,280	0	0	0	5,614,280	0
Net position:						
Net Investment in						
Capital Assets	68,164,920	69,457,685	7,136,574	7,233,228	75,301,494	76,690,913
Restricted	2,386,350	1,824,840	0	0	2,386,350	1,824,840
Unrestricted	<u>10,429,640</u>	<u>11,427,004</u>	<u>913,248</u>	<u>758,187</u>	<u>11,342,888</u>	<u>12,185,191</u>
Total net position	<u>\$80,980,910</u>	<u>\$82,709,529</u>	<u>\$8,049,822</u>	<u>\$7,991,415</u>	<u>\$89,030,732</u>	<u>\$90,700,944</u>

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MARION CITY SCHOOL DISTRICT, OHIO

**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013**

Unaudited

Changes in Net Position – The following table shows the changes in net position for the fiscal year 2013 compared to 2012:

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Revenues						
Program revenues:						
Charges for Services and Sales	\$1,808,882	\$1,840,103	\$90,930	\$337,767	\$1,899,812	\$2,177,870
Operating Grants	9,637,046	11,485,656	2,494,969	1,823,259	12,132,015	13,308,915
Total Program Revenues	11,445,928	13,325,759	2,585,899	2,161,026	14,031,827	15,486,785
General Revenues:						
Property Taxes	9,390,676	9,472,391	0	0	9,390,676	9,472,391
Payment in Lieu of Taxes	93,475	84,115	0	0	93,475	84,115
Intergovernmental, Unrestricted	30,067,794	27,570,303	0	0	30,067,794	27,570,303
Other	540,070	456,920	0	768	540,070	457,688
Total General Revenues	40,092,015	37,583,729	0	768	40,092,015	37,584,497
Total Revenues	51,537,943	50,909,488	2,585,899	2,161,794	54,123,842	53,071,282
Program Expenses						
Instruction	31,705,790	32,483,039	0	0	31,705,790	32,483,039
Support Services:						
Pupils	2,897,956	2,725,212	0	0	2,897,956	2,725,212
Instructional Staff	2,985,407	3,753,952	0	0	2,985,407	3,753,952
Board of Education	62,276	37,196	0	0	62,276	37,196
Administration	3,983,425	3,764,493	0	0	3,983,425	3,764,493
Fiscal Services	741,372	732,053	0	0	741,372	732,053
Business	362,125	443,202	0	0	362,125	443,202
Operation and Maintenance of Plant	4,334,340	4,394,836	0	0	4,334,340	4,394,836
Pupil Transportation	1,196,859	1,159,451	0	0	1,196,859	1,159,451
Central	183,256	3,961	0	0	183,256	3,961
Operation of Non-Instructional Services	3,097,767	2,997,293	0	0	3,097,767	2,997,293
Extracurricular Activities	944,108	962,123	0	0	944,108	962,123
Interest and Fiscal Charges	771,881	589,763	0	0	771,881	589,763
Food Service	0	0	2,527,389	2,130,629	2,527,389	2,130,629
Reading Recovery Support	0	0	103	3,530	103	3,530
Total Expenses	53,266,562	54,046,574	2,527,492	2,134,159	55,794,054	56,180,733
Change in Net Position	(1,728,619)	(3,137,086)	58,407	27,635	(1,670,212)	(3,109,451)
Beginning Net Position	82,709,529	85,846,615	7,991,415	7,963,780	90,700,944	93,810,395
Ending Net Position	\$80,980,910	\$82,709,529	\$8,049,822	\$7,991,415	\$89,030,732	\$90,700,944

Governmental Activities

Net position of the District's governmental activities decreased \$1,728,619. Overall, expenses remained stable, decreasing approximately 1.4%.

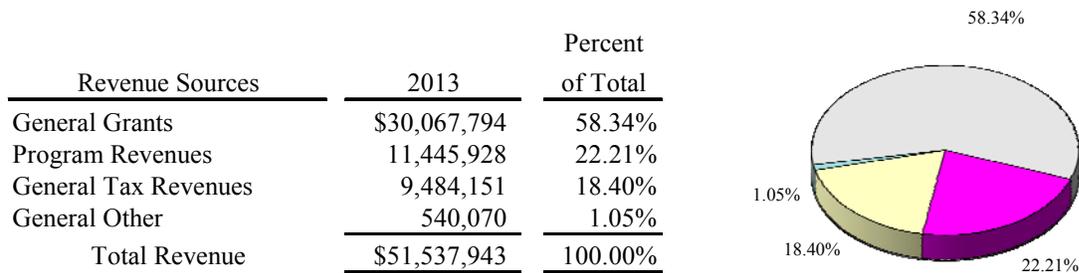
MARION CITY SCHOOL DISTRICT, OHIO

**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013**

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 18.4% of total revenues from general tax revenues:



Business-Type Activities

Net position of the business-type activities increased \$58,407. 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 \$13,925,236, which is a decrease from last year's total of \$14,867,287. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2013 and 2012.

	Fund Balance June 30, 2013	Fund Balance June 30, 2012	Increase (Decrease)
General	\$12,132,949	\$13,722,038	(\$1,589,089)
Other Governmental	1,792,287	1,145,249	647,038
Total	<u>\$13,925,236</u>	<u>\$14,867,287</u>	<u>(\$942,051)</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, 2013*

Unaudited

	2013 Revenues	2012 Revenues	Increase (Decrease)
Taxes	\$8,016,153	\$7,911,918	\$104,235
Payment in Lieu of Taxes	93,475	84,115	9,360
Tuition and Fees	1,643,358	1,675,203	(31,845)
Investment Earnings	49,270	100,800	(51,530)
Extracurricular Activities	43,176	34,298	8,878
Intergovernmental	34,863,978	35,041,619	(177,641)
All Other Revenue	305,872	189,776	116,096
Total	\$45,015,282	\$45,037,729	(\$22,447)

General Fund revenues in 2013 decreased by less than 1% when compared to revenues in fiscal year 2012. An increase in the amount of property tax available for advance resulted in a 1% increase in property tax revenues. The decrease in investment earnings can be attributed to losses in the market value of District investments.

	2013 Expenditures	2012 Expenditures	Increase (Decrease)
Instruction	\$28,584,288	\$27,799,181	\$785,107
Supporting Services:			
Pupils	2,647,743	2,553,146	94,597
Instructional Staff	1,340,252	1,396,072	(55,820)
Board of Education	62,276	37,196	25,080
Administration	3,727,677	3,416,882	310,795
Fiscal Services	701,222	711,862	(10,640)
Business	384,567	454,484	(69,917)
Operation & Maintenance of Plant	3,876,700	3,885,007	(8,307)
Pupil Transportation	1,141,506	999,440	142,066
Central	183,478	3,739	179,739
Operation of Non-Instructional Services	2,960,952	2,874,834	86,118
Extracurricular Activities	594,757	612,757	(18,000)
Capital Outlay	324,781	28,172	296,609
Principal Retirement	211,010	29,173	181,837
Interest and Fiscal Charges	86,924	11,465	75,459
Total	\$46,828,133	\$44,813,410	\$2,014,723

General fund expenditures remained stable when compared with the prior year, increasing \$2,014,723 or about 4.5%.

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, 2013**

Unaudited

During the course of fiscal year 2013 the District did not amend its General Fund budget. Final budget basis revenue of \$42.7 million was the same as the original estimates. Actual budget basis revenue of \$45 million was significantly different from the final budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2013 the School District had \$84,742,543 net of accumulated depreciation invested in land, buildings, improvements, equipment and vehicles. Of this total, \$77,605,969 was related to governmental activities and \$7,136,574 to the business-type activities. The following table shows fiscal year 2013 and 2012 balances:

	Governmental Activities		Increase (Decrease)
	2013	2012	
	Land	\$1,965,229	\$1,965,229
Land Improvements	957,587	957,587	0
Buildings and Improvements	90,753,743	90,753,743	0
Machinery and Equipment	2,482,546	2,503,849	(21,303)
Vehicles	1,804,821	1,702,008	102,813
Less: Accumulated Depreciation	(20,357,957)	(18,450,846)	(1,907,111)
Totals	\$77,605,969	\$79,431,570	(\$1,825,601)

	Business-Type Activities		Increase (Decrease)
	2013	2012	
	Land	\$151,853	\$151,853
Buildings and Improvements	8,616,936	8,616,936	0
Machinery and Equipment	88,151	13,992	74,159
Less: Accumulated Depreciation	(1,720,366)	(1,549,553)	(170,813)
Totals	\$7,136,574	\$7,233,228	(\$96,654)

Additional information on the District's capital assets can be found in Note 9.

MARION CITY SCHOOL DISTRICT, OHIO

**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013**

Unaudited

Debt

At June 30, 2013, the District had \$10.3 million in bonds outstanding, \$895,000 due within one year. The following table summarizes the District's long term obligations as of June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Governmental Activities:		
General Obligation Bonds	\$10,250,888	\$10,978,208
General Obligation Note	1,725,880	1,823,390
Capital Leases Payable	254,745	94,483
Compensated Absences	<u>2,970,973</u>	<u>3,454,096</u>
Total Governmental Activities	15,202,486	16,350,177
Business-Type Activities:		
Compensated Absences	<u>67,332</u>	<u>59,810</u>
Totals	<u><u>\$15,269,818</u></u>	<u><u>\$16,409,987</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, 2013, 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

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013*

Unaudited

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 Position June 30, 2013

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	Marion City Digital Academy	Rushmore Academy
Assets:					
Pooled Cash and Investments	\$ 15,934,570	\$ 1,099,945	\$ 17,034,515	\$ 382,193	\$ 764,843
Receivables:					
Taxes	12,130,130	0	12,130,130	0	0
Accounts	594,808	8,335	603,143	0	0
Intergovernmental	919,861	2,407	922,268	42,160	17,852
Payment in Lieu of Taxes	70,267	0	70,267	0	0
Due from Component Units	123,473	0	123,473	0	0
Interest	22,874	0	22,874	0	0
Inventory Held for Resale	0	52,911	52,911	0	0
Inventory of Supplies at Cost	46,612	24,287	70,899	0	0
Prepaid Items	81,002	0	81,002	188	1,785
Non-Depreciable Capital Assets	1,965,229	151,853	2,117,082	0	0
Depreciable Capital Assets, Net	75,640,740	6,984,721	82,625,461	2,869	83,302
Total Assets	107,529,566	8,324,459	115,854,025	427,410	867,782
Deferred Outflows of Resources:					
Deferred Charge on Debt Refunding	420,677	0	420,677	0	0
Liabilities:					
Accounts Payable	400,098	37,135	437,233	4,403	7,022
Accrued Wages and Benefits	4,188,681	113,671	4,302,352	17,773	0
Intergovernmental Payable	1,048,298	56,499	1,104,797	7,367	0
Due to Primary Government	0	0	0	0	123,473
Unearned Revenue	0	0	0	0	6,845
Matured Compensated Absences Payable	481,911	0	481,911	0	0
Accrued Interest Payable	33,579	0	33,579	0	0
Long Term Liabilities:					
Due Within One Year	1,261,615	14,362	1,275,977	0	0
Due in More Than One Year	13,940,871	52,970	13,993,841	0	0
Total Liabilities	21,355,053	274,637	21,629,690	29,543	137,340
Deferred Inflows of Resources:					
Property Tax for Next Fiscal Year	5,614,280	0	5,614,280	0	0
Net Position:					
Net Investment in Capital Assets	68,164,920	7,136,574	75,301,494	2,869	83,302
Restricted For:					
Debt Service	1,353,480	0	1,353,480	0	0
Other Purposes	1,030,148	0	1,030,148	0	0
Permanent Fund:					
Nonexpendable	2,722	0	2,722	0	0
Unrestricted	10,429,640	913,248	11,342,888	394,998	647,140
Total Net Position	\$ 80,980,910	\$ 8,049,822	\$ 89,030,732	\$ 397,867	\$ 730,442

See accompanying notes to the basic financial statements

MARION CITY SCHOOL DISTRICT, OHIO

Statement of Activities For the Fiscal Year Ended June 30, 2013

	Expenses	Program Revenues	
		Charges for Services and Sales	Operating Grants and Contributions
Governmental Activities:			
Instruction	\$ 31,705,790	\$ 1,635,282	\$ 6,144,639
Support Services:			
Pupils	2,897,956	0	150,765
Instructional Staff	2,985,407	0	2,735,993
Board of Education	62,276	0	0
Administration	3,983,425	0	288,068
Fiscal Services	741,372	0	0
Business	362,125	0	0
Operation and Maintenance of Plant	4,334,340	0	0
Pupil Transportation	1,196,859	0	104,774
Central	183,256	0	0
Operation of Non-Instructional Services	3,097,767	0	212,807
Extracurricular Activities	944,108	173,600	0
Interest and Fiscal Charges	771,881	0	0
Total Governmental Activities	53,266,562	1,808,882	9,637,046
Business-Type Activities:			
Food Service	2,527,389	90,880	2,494,969
Other Enterprise	103	50	0
Total Business-Type Activities	2,527,492	90,930	2,494,969
Totals	\$ 55,794,054	\$ 1,899,812	\$ 12,132,015
Component Units:			
Marion City Digital Academy	\$ 806,674	\$ 0	\$ 43,982
Rushmore Academy	1,233,508	0	58,449
Total Component Units	\$ 2,040,182	\$ 0	\$ 102,431

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 Position

Net Position Beginning of Year

Net Position End of Year

See accompanying notes to the basic financial statements

MARION CITY SCHOOL DISTRICT, OHIO

Net (Expense) Revenue and Changes in Net Position			Component Units	
Primary Government				
Governmental Activities	Business-Type Activities	Total	Marion City Digital Academy	Rushmore Academy
\$ (23,925,869)	\$ 0	\$ (23,925,869)		
(2,747,191)	0	(2,747,191)		
(249,414)	0	(249,414)		
(62,276)	0	(62,276)		
(3,695,357)	0	(3,695,357)		
(741,372)	0	(741,372)		
(362,125)	0	(362,125)		
(4,334,340)	0	(4,334,340)		
(1,092,085)	0	(1,092,085)		
(183,256)	0	(183,256)		
(2,884,960)	0	(2,884,960)		
(770,508)	0	(770,508)		
(771,881)	0	(771,881)		
(41,820,634)	0	(41,820,634)		
0	58,460	58,460		
0	(53)	(53)		
0	58,407	58,407		
\$ (41,820,634)	\$ 58,407	\$ (41,762,227)		
			\$ (762,692)	\$ 0
			0	(1,175,059)
			(762,692)	(1,175,059)
8,166,883	0	8,166,883	0	0
120,435	0	120,435	0	0
1,103,358	0	1,103,358	0	0
93,475	0	93,475	0	0
30,067,794	0	30,067,794	648,840	1,116,271
45,113	0	45,113	613	0
494,957	0	494,957	4,700	2,666
40,092,015	0	40,092,015	654,153	1,118,937
(1,728,619)	58,407	(1,670,212)	(108,539)	(56,122)
82,709,529	7,991,415	90,700,944	506,406	786,564
\$ 80,980,910	\$ 8,049,822	\$ 89,030,732	\$ 397,867	\$ 730,442

MARION CITY SCHOOL DISTRICT, OHIO

Balance Sheet
Governmental Funds
June 30, 2013

	General	Other Governmental Funds	Total Governmental Funds
Assets:			
Pooled Cash and Investments	\$ 14,207,215	\$ 1,727,355	\$ 15,934,570
Receivables:			
Taxes	10,557,493	1,572,637	12,130,130
Accounts	594,808	0	594,808
Intergovernmental	161,024	758,837	919,861
Interest	22,874	0	22,874
Payment in Lieu of Taxes	70,267	0	70,267
Due from Component Units	123,473	0	123,473
Interfund Loans Receivable	341,125	0	341,125
Inventory of Supplies at Cost	46,612	0	46,612
Prepaid Items	81,002	0	81,002
Total Assets	\$ 26,205,893	\$ 4,058,829	\$ 30,264,722
Liabilities:			
Accounts Payable	\$ 322,171	\$ 77,927	\$ 400,098
Accrued Wages and Benefits	3,807,772	380,909	4,188,681
Intergovernmental Payable	993,710	54,588	1,048,298
Interfund Loans Payable	0	341,125	341,125
Matured Compensated Absences Payable	481,911	0	481,911
Total Liabilities	5,605,564	854,549	6,460,113
Deferred Inflows of Resources:			
Unavailable Amounts	777,920	264,404	1,042,324
Property Tax for Next Fiscal Year	7,689,460	1,147,589	8,837,049
Total Deferred Inflows of Resources	8,467,380	1,411,993	9,879,373
Fund Balance:			
Nonspendable	127,614	2,222	129,836
Restricted	0	2,124,182	2,124,182
Assigned	436,252	0	436,252
Unassigned	11,569,083	(334,117)	11,234,966
Total Fund Balance	12,132,949	1,792,287	13,925,236
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 26,205,893	\$ 4,058,829	\$ 30,264,722

See accompanying notes to the basic financial statements

MARION CITY SCHOOL DISTRICT, OHIO

Reconciliation Of Total Governmental Fund Balances To Net Position Of Governmental Activities June 30, 2013

Total Governmental Fund Balances		\$ 13,925,236
<i>Amounts reported for governmental activities in the statement of net position are different because</i>		
Capital Assets used in governmental activities are not resources and therefore are not reported in the funds.		77,605,969
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Accounts Receivable	578,217	
Accrued Interest Receivable	5,963	
Intergovernmental Receivable	264,404	
Due from Component Unit	123,473	
Property Tax Receivable	<u>3,293,036</u>	4,265,093
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.		(33,579)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
General Obligation Bonds Payable	(9,830,211)	
General Obligation Note Payable	(1,725,880)	
Capital Leases Payable	(254,745)	
Compensated Absences Payable	<u>(2,970,973)</u>	<u>(14,781,809)</u>
<i>Net Position of Governmental Activities</i>		<u>\$ 80,980,910</u>

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, 2013

	General	Other Governmental Funds	Total Governmental Funds
	<u> </u>	<u> </u>	<u> </u>
Revenues:			
Local Sources:			
Property Taxes	\$ 8,016,153	\$ 1,223,793	\$ 9,239,946
Payments in Lieu of Taxes	93,475	0	93,475
Tuition	1,632,114	0	1,632,114
Investment Earnings	49,270	2	49,272
Extracurricular Activities	43,176	117,401	160,577
Class Materials and Fees	11,244	0	11,244
Intermediate Sources	0	18,831	18,831
Intergovernmental - State	34,744,686	770,388	35,515,074
Intergovernmental - Federal	119,292	4,363,822	4,483,114
All Other Revenue	305,872	31,551	337,423
Total Revenue	<u>45,015,282</u>	<u>6,525,788</u>	<u>51,541,070</u>
Expenditures:			
Current:			
Instruction	28,584,288	1,921,356	30,505,644
Supporting Services:			
Pupils	2,647,743	246,492	2,894,235
Instructional Staff	1,340,252	1,560,063	2,900,315
Board of Education	62,276	0	62,276
Administration	3,727,677	173,193	3,900,870
Fiscal Services	701,222	36,600	737,822
Business	384,567	0	384,567
Operation and Maintenance of Plant	3,876,700	230,866	4,107,566
Pupil Transportation	1,141,506	69,054	1,210,560
Central	183,478	0	183,478
Operation of Non-Instructional Services	2,960,952	136,815	3,097,767
Extracurricular Activities	594,757	203,714	798,471
Capital Outlay	324,781	97,851	422,632
Debt Service:			
Principal Retirement	211,010	850,000	1,061,010
Interest and Fiscal Charges	86,924	402,746	489,670
Total Expenditures	<u>46,828,133</u>	<u>5,928,750</u>	<u>52,756,883</u>
Excess (Deficiency) of Revenues			
Over (Under) Expenditures	(1,812,851)	597,038	(1,215,813)

MARION CITY SCHOOL DISTRICT, OHIO

	General	Other Governmental Funds	Total Governmental Funds
Other Financing Sources (Uses):			
Other Financing Sources-Capital Leases	273,762	0	273,762
Transfers In	0	50,000	50,000
Transfers Out	(50,000)	0	(50,000)
Total Other Financing Sources (Uses)	<u>223,762</u>	<u>50,000</u>	<u>273,762</u>
Net Change in Fund Balance	(1,589,089)	647,038	(942,051)
Fund Balance at Beginning of Year	<u>13,722,038</u>	<u>1,145,249</u>	<u>14,867,287</u>
Fund Balance End of Year	<u>\$ 12,132,949</u>	<u>\$ 1,792,287</u>	<u>\$ 13,925,236</u>

See accompanying notes to the basic financial statements

MARION CITY SCHOOL DISTRICT, OHIO

***Reconciliation Of The Statement Of Revenues, Expenditures
And Changes In Fund Balances Of Governmental Funds
To The Statement Of Activities
For The Fiscal Year Ended June 30, 2013***

Net Change in Fund Balances - Total Governmental Funds \$ (942,051)

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	115,053	
Depreciation	(2,181,741)	(2,066,688)

Governmental funds only report the disposal of assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. This is the amount of the loss on the disposal of capital assets net of proceeds received. (32,675)

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

Property Taxes Receivable	150,730	
Intergovernmental Receivable	(129,187)	
Accrued Interest Receivable	(4,159)	
Tuition and Fees Receivable	(15,436)	
Charges for Services Receivable	(5,075)	(3,127)

The issuance of long-term debt provides current financial resources to governmental funds, but has no effect on net position. 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 position.

General Obligation Bonds Principal	850,000	
General Obligation Note Principal	97,510	
Capital Lease Principal	113,500	1,061,010

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 (8,654)

MARION CITY SCHOOL DISTRICT, OHIO

Interest is reported as an expenditure when due in the governmental funds but is accrued on outstanding debt on the statement of net position. Premiums are reported as revenues when the debt is first issued; however, these amounts are deferred and amortized on the statement of net position.

Accrued Interest Payable	8,726	
Annual Accretion on Capital Appreciation Bonds	(134,035)	
Amortization of Premium	<u>11,355</u>	(113,954)

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.

Amortization of Issuance Costs	<u>(159,603)</u>	(159,603)
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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	54,000	
Compensated Absences Payable	<u>483,123</u>	<u>537,123</u>

Change in Net Position of Governmental Activities

\$ (1,728,619)

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, 2013**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Local Sources:				
Property Taxes	\$ 7,671,748	\$ 7,671,478	\$ 8,148,466	\$ 476,988
Payment in Lieu of Taxes	84,000	84,000	93,475	9,475
Tuition	1,526,500	1,526,500	1,632,189	105,689
Investment Earnings	100,000	100,000	70,405	(29,595)
Extracurricular Activities	33,500	33,500	35,816	2,316
Class Material and Fees	15,000	15,000	11,244	(3,756)
Intergovernmental - State	32,949,519	32,949,519	34,653,356	1,703,837
Intergovernmental - Federal	75,000	75,000	71,228	(3,772)
All Other Revenues	256,116	256,116	310,222	54,106
Total Revenues	<u>42,711,113</u>	<u>42,711,113</u>	<u>45,026,401</u>	<u>2,315,288</u>
Expenditures:				
Current:				
Instructional Services:				
Regular	22,989,675	23,240,604	23,226,794	13,810
Special	4,352,821	4,400,035	4,397,437	2,598
Vocational	363,494	367,436	367,220	216
Adult/Continuing	17,304	17,492	17,482	10
Other	432,947	437,643	437,385	258
Support Services:				
Pupils	2,635,490	2,664,076	2,662,503	1,573
Instructional Staff	1,354,832	1,369,528	1,368,719	809
Board of Education	68,936	69,684	69,643	41
Administration	3,633,540	3,672,952	3,670,783	2,169
Fiscal Services	705,252	712,902	712,481	421
Business	399,181	403,511	403,273	238
Operation and Maintenance of Plant	3,974,238	4,017,345	4,014,973	2,372
Pupil Transportation	1,205,430	1,218,505	1,217,785	720
Central	193,818	195,921	195,805	116
Operation of Non-Instructional Services	2,930,911	2,962,702	2,960,952	1,750
Extracurricular Activities	599,884	606,391	606,033	358
Capital Outlay	93,966	94,985	94,929	56
Debt Service:				
Principal Retirement	211,010	211,010	211,010	0
Interest and Fiscal Charges	86,924	86,924	86,924	0
Total Expenditures	<u>46,249,653</u>	<u>46,749,647</u>	<u>46,722,131</u>	<u>27,516</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(3,538,540)	(4,038,534)	(1,695,730)	2,342,804

MARION CITY SCHOOL DISTRICT, OHIO

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
Other Financing Sources (Uses):				
Transfers Out	(50,000)	(50,000)	(50,000)	0
Total Other Financing Sources (Uses):	(50,000)	(50,000)	(50,000)	0
Net Change in Fund Balance	(3,588,540)	(4,088,534)	(1,745,730)	2,342,804
Fund Balance at Beginning of Year	15,457,865	15,457,865	15,457,865	0
Prior Year Encumbrances	321,188	321,188	321,188	0
Fund Balance at End of Year	\$ 12,190,513	\$ 11,690,519	\$ 14,033,323	\$ 2,342,804

See accompanying notes to the basic financial statements

MARION CITY SCHOOL DISTRICT, OHIO

**Statement of Net Position
Proprietary Funds
June 30, 2013**

	Business-Type Activities		
	Enterprise Funds		
	Food Service	Other Enterprise	Total
Assets:			
<i>Current Assets:</i>			
Pooled Cash and Investments	\$ 1,029,226	\$ 70,719	\$ 1,099,945
Receivables:			
Accounts	8,335	0	8,335
Intergovernmental	2,407	0	2,407
Inventory Held for Resale	52,911	0	52,911
Inventory of Supplies at Cost	24,287	0	24,287
<i>Total Current Assets</i>	1,117,166	70,719	1,187,885
<i>Non Current Assets:</i>			
Non-Depreciable Capital Assets	151,853	0	151,853
Depreciable Capital Assets, Net	6,984,721	0	6,984,721
Total Assets	8,253,740	70,719	8,324,459
Liabilities:			
<i>Current Liabilities:</i>			
Accounts Payable	37,135	0	37,135
Accrued Wages and Benefits	113,671	0	113,671
Intergovernmental Payable	56,499	0	56,499
Compensated Absences - Current	14,362	0	14,362
<i>Total Current Liabilities</i>	221,667	0	221,667
<i>Long Term Liabilities:</i>			
Compensated Absences Payable	52,970	0	52,970
Total Liabilities	274,637	0	274,637
Net Position:			
Net Investment in Capital Assets	7,136,574	0	7,136,574
Unrestricted	842,529	70,719	913,248
Total Net Position	\$ 7,979,103	\$ 70,719	\$ 8,049,822

See accompanying notes to the basic financial statements

MARION CITY SCHOOL DISTRICT, OHIO

**Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Funds
For the Fiscal Year Ended June 30, 2013**

	Business-Type Activities		
	Enterprise Funds		
	Food Service	Other Enterprise	Total
Operating Revenues:			
Sales	\$ 85,175	\$ 50	\$ 85,225
Other Operating Revenues	5,705	0	5,705
Total Operating Revenues	<u>90,880</u>	<u>50</u>	<u>90,930</u>
Operating Expenses:			
Salaries and Wages	707,027	0	707,027
Fringe Benefits	297,484	0	297,484
Contractual Services	139,140	0	139,140
Supplies and Materials	1,213,028	0	1,213,028
Depreciation	170,710	103	170,813
Total Operating Expenses	<u>2,527,389</u>	<u>103</u>	<u>2,527,492</u>
Operating Loss	(2,436,509)	(53)	(2,436,562)
Nonoperating Revenue (Expenses):			
Federal Donated Commodities	73,350	0	73,350
Operating Grants	2,421,619	0	2,421,619
Total Nonoperating Revenues (Expenses)	<u>2,494,969</u>	<u>0</u>	<u>2,494,969</u>
Change in Net Position	58,460	(53)	58,407
Net Position Beginning of Year	7,920,643	70,772	7,991,415
Net Position End of Year	<u>\$ 7,979,103</u>	<u>\$ 70,719</u>	<u>\$ 8,049,822</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, 2013

	Business-Type Activities		
	Enterprise Funds		
	Food Service	Other Enterprise	Total
<u>Cash Flows from Operating Activities:</u>			
Cash Received from Customers	\$76,840	\$50	\$76,890
Cash Received from Other Revenues	5,705	0	5,705
Cash Payments for Goods and Services	(1,302,102)	0	(1,302,102)
Cash Payments to Employees for Services and Benefits	(969,719)	0	(969,719)
Net Cash Provided (Used) by Operating Activities	<u>(2,189,276)</u>	<u>50</u>	<u>(2,189,226)</u>
<u>Cash Flows from Noncapital Financing Activities:</u>			
Operating Grants Received	2,419,212	0	2,419,212
Net Cash Provided by Noncapital Financing Activities	<u>2,419,212</u>	<u>0</u>	<u>2,419,212</u>
<u>Cash Flows from Capital and Related Financing Activities:</u>			
Acquisition of Equipment	(72,239)	0	(72,239)
Net Cash Used by Capital and Related Financing Activities	<u>(72,239)</u>	<u>0</u>	<u>(72,239)</u>
Net Increase in Cash and Cash Equivalents	157,697	50	157,747
Cash and Cash Equivalents at Beginning of Year	871,529	70,669	942,198
Cash and Cash Equivalents at End of Year	<u>\$1,029,226</u>	<u>\$70,719</u>	<u>\$1,099,945</u>
<u>Reconciliation of Operating Loss to Net Cash</u>			
<u> Provided (Used) by Operating Activities:</u>			
Operating Loss	(\$2,436,509)	(\$53)	(\$2,436,562)
Adjustments to Reconcile Operating Loss to			
Net Cash Provided (Used) by Operating Activities:			
Depreciation Expense	170,710	103	170,813
Donated Commodities Used During the Year	73,350	0	73,350
Changes in Assets and Liabilities:			
Increase in Accounts Receivable	(8,335)	0	(8,335)
Increase in Inventory Held for Resale	(28,437)	0	(28,437)
Increase in Inventory of Supplies at Cost	(8,892)	0	(8,892)
Increase in Accounts Payable	14,045	0	14,045
Increase in Accrued Wages and Benefits	18,274	0	18,274
Increase in Intergovernmental Payables	8,996	0	8,996
Increase in Compensated Absences	7,522	0	7,522
Total Adjustments	<u>247,233</u>	<u>103</u>	<u>247,336</u>
Net Cash Provided (Used) by Operating Activities	<u>(\$2,189,276)</u>	<u>\$50</u>	<u>(\$2,189,226)</u>

See accompanying notes to the basic financial statements

MARION CITY SCHOOL DISTRICT, OHIO

Statement of Net Position
Fiduciary Funds
June 30, 2013

	Private Purpose Trust	Agency
	<u> </u>	<u> </u>
Assets:		
Cash and Cash Equivalents	\$ 106,690	\$ 20,796
	<u> </u>	<u> </u>
Liabilities:		
Due to Students	0	20,796
	<u> </u>	<u> </u>
Net Position:		
Held in Trust for Scholarships	5,634	
Endowments	101,056	
	<u> </u>	
Total Net Position	<u>\$ 106,690</u>	

See accompanying notes to the basic financial statements

MARION CITY SCHOOL DISTRICT, OHIO

Statement of Changes in Net Position
Fiduciary Fund
For the Fiscal Year Ended June 30, 2013

	<u>Private Purpose Trust</u>
Additions:	
Contributions:	
Private Donations	\$ 1,000
Total Contributions	<u>1,000</u>
Investment Earnings:	
Interest	<u>69</u>
Total Additions	<u>1,069</u>
Deductions:	
Administrative Expenses	<u>1,014</u>
Total Deductions	<u>1,014</u>
Change in Net Position	55
Net Position at Beginning of Year	<u>106,635</u>
Net Position End of Year	<u>\$ 106,690</u>

See accompanying notes to the basic financial statements

MARION CITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2013

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 171 noncertified and approximately 355 certified teaching personnel and administrative employees providing education to 4,507 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*," and GASB Statement No. 61, "*The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34*" 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

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2013

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, deferred outflows of resources, liabilities, deferred inflows of resources, fund equity, revenues and expenditures (expenses). The various funds are grouped into the categories governmental, proprietary and fiduciary.

MARION CITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2013

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 deferred outflows of resources and all liabilities and deferred inflows of resources associated with the operation of these funds are included on the balance sheet. Proprietary fund type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in total net position.

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 Position and changes in Net Position. 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

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Presentation – Financial Statements

Government-wide Financial Statements – The statement of net position 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 deferred outflows of resources and current liabilities and deferred inflows of resources, 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

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2013

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 deferred outflows of resources and all liabilities and deferred inflows of resources associated with the operation of these funds are included on the statement of net position. The statement of changes in fund net position presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position. The statement of cash flows provides information about how the School 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, 2013, and which are not intended to finance fiscal year 2013 operations, have been recorded as deferred inflows of resources. 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.

MARION CITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2013

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

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2013

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 2013.

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

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013**

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)	(\$1,589,089)
Increase (Decrease):	
Accrued Revenues	
at June 30, 2013,	
received during FY 2014	(3,062,559)
Accrued Revenues	
at June 30, 2012,	
received during FY 2013	3,104,521
Accrued Expenditures	
at June 30, 2013,	
paid during FY 2014	5,605,564
Accrued Expenditures	
at June 30, 2012,	
paid during FY 2013	(5,361,055)
Cash Adjustments:	
Unrecorded Cash Activity FY 2012	(152)
Unrecorded Cash Activity FY 2013	19,754
2012 Prepays for 2013	71,032
2013 Prepays for 2014	(81,002)
2012 Materials and Supplies Inventory	61,905
2013 Materials and Supplies Inventory	(46,612)
Encumbrances Outstanding	(464,801)
Perspective Difference:	
Activity of Funds Reclassified	
for GAAP Reporting Purposes	(3,236)
Budget Basis	(\$1,745,730)

MARION CITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2013

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 2013, 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, 2013. 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 2013 was \$49,270, which includes \$7,470 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, 2013, 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

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2013

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 Position, 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 Position 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

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013*

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
General Obligation Note	General Fund

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MARION CITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. 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 position, "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.

L. Net Position

Net position represents the difference between assets plus deferred outflows and liabilities plus deferred inflows. Net investment in capital assets 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 position is 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.

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

MARION CITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Pensions

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

N. 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.

O. 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

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

O. 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.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted (committed, assigned and unassigned) resources as they are needed.

P. 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.

Q. 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.

R. 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 2013.

MARION CITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

S. Bond Premiums, Bond Discounts, Gains on Refunding and Issuance Costs

In the government-wide financial statements, bond premiums and discounts are deferred and amortized over the term of the bonds using the straight-line method, which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium and discount. Bond issuance costs are expensed. Bond premiums are deferred and accreted over the term of the bonds. Any gain or loss on refunding is allocated over the life of the old debt or the new debt whichever is shorter.

On the governmental fund financial statements, governmental fund types recognize issuance costs, bond premiums, and bond discounts in the current period. The face amount of the debt issue is reported as other financing sources. Premiums and discounts received on debt issuances are reported as other financing sources and uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

T. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then. The District only has one item that qualifies for reporting in this category. It is the deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. On the government-wide statement of net position and governmental funds balance sheet, property taxes that are intended to finance future fiscal periods are reported as deferred inflows. In addition, the governmental funds balance sheet reports deferred inflows which arise only under a modified accrual basis of accounting. Accordingly, the item, unavailable amounts, is reported only in the governmental funds balance sheet. The governmental funds report unavailable amounts for property taxes, investment earnings, grants, and state levied shared taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

MARION CITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2013

NOTE 2 – CHANGE IN ACCOUNTING PRINCIPLE

For 2013 the District implemented GASB Statement No. 61, *“The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34”*, GASB Statement No. 63, *“Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position”* and GASB Statement No. 65, *“Items Previously Reported as Assets and Liabilities”*.

GASB Statement No. 61 modifies certain requirements for inclusion of component units in the financial reporting entity. The Statement amends the criteria for reporting component units as if they were part of the primary government in certain circumstances. Finally, the Statement also clarifies the reporting of equity interests in legally separate organizations. The implementation of GASB Statement No. 61 did not have an effect on the financial statements of the District.

GASB Statement No. 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures. GASB 63 standardizes the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government’s net position.

GASB Statement No. 65 provides guidance on how to properly classify items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources. In addition, guidance is provided on recognizing certain items that were previously reported as assets and liabilities as outflows of resources (expenses or expenditures) or inflows of resources (revenues).

The implementation of these GASB Statements had no impact on beginning of year fund balance/net position.

MARION CITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2013

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	\$46,612	\$0	\$46,612
Prepays	81,002	0	81,002
Endowments	0	2,222	2,222
Total Nonspendable	127,614	2,222	129,836
Restricted:			
School Facilities Maintenance	0	885,936	885,936
Auxiliary Services	0	14,651	14,651
Extracurricular Activities	0	73,310	73,310
Technology Improvements	0	14,823	14,823
Targeted Academic Assistance	0	142,417	142,417
Debt Service Payments	0	993,045	993,045
Total Restricted	0	2,124,182	2,124,182
Assigned to Other Purposes	436,252	0	436,252
Unassigned	11,569,083	(334,117)	11,234,966
Total Fund Balances	\$12,132,949	\$1,792,287	\$13,925,236

Fund balances at June 30, 2013 included the following individual fund deficits:

<u>Other Governmental Funds</u>	<u>Deficit</u>
Early Childhood Development	\$38,610
School Conflict Management Group	22
Race to the Top	149,509
IDEA-B	94,310
Title I	19,902
Preschool Grant	639
Title II-A	31,125
Total Fund Deficit	\$334,117

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

MARION CITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2013

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, 2013

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 \$15,681,548 and the bank balance was \$16,471,495. Federal depository insurance covered \$6,609,434 of the bank balance and \$9,862,061 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, 2013 were as follows:

	Fair Value	Credit Rating	Investment Maturities (in Years)		
			less than 1	1-3	3-5
STAR Ohio	\$21,972	AAA ¹	\$21,972	\$0	\$0
FHLB	100,000	Aaa ²	100,000	0	0
FFCB	100,000	Aaa ²	0	100,000	0
FHLB	105,000	Aaa ²	0	105,000	0
FHLMC	495,099	Aaa ²	100,024	395,075	0
U.S. Treasury Note	50,000	Aaa ²	0	50,000	0
Government Bonds	546,480	Aaa ²	0	546,480	0
Bankers Acceptance	61,902	P-1 ²	61,902	0	0
Total Investments	<u>\$1,480,453</u>		<u>\$283,898</u>	<u>\$1,196,555</u>	<u>\$0</u>

¹ Standard & Poor's

² Moody's Investor Service

MARION CITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2013

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, 1.5% are STAR Ohio, 6.8% are FHLB, 6.8% are FFCB, 7.1% are FHLB, 33.4% are FHLMC, 3.3% are U.S. Treasury Notes, 36.9% are Government Bonds and 4.2% 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 2013 were levied after April 1, 2012 on assessed values as of January 1, 2012, 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 2011. 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, 2013 was \$2,868,033 in the General Fund, \$42,779 in the Classroom Facilities special revenue fund, and \$382,269 in the Bond Retirement debt service fund.

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.

MARION CITY SCHOOL DISTRICT, OHIO

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013**

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 2013 were as follows:

	2012 Second Half Collections	2013 First Half Collections
Agricultural/Residential and Other Real Estate	\$312,689,800	\$310,990,230
Public Utility Personal	24,557,520	26,072,560
Total Assessed Value	\$337,247,320	\$337,062,790
Tax rate per \$1,000 of assessed valuation	\$41.25	\$41.22

NOTE 6 - INTERFUND RECEIVABLES/PAYABLES

Interfund loans receivable/payable – short-term loans at June 30, 2013 from one individual fund to another are as follows:

	Interfund Loan Receivable	Interfund Loan Payable
General Fund	\$341,125	\$0
Other Governmental Funds	0	341,125
Totals	\$341,125	\$341,125

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, 2013:

	Transfers In:	
Transfers Out:	Other Governmental Funds	Total
General Fund	\$50,000	\$50,000

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, 2013**

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, 2013:

<i>Historical Cost:</i>				
Class	June 30, 2012	Additions	Deletions	June 30, 2013
<i>Capital assets not being depreciated:</i>				
Land	\$1,965,229	\$0	\$0	\$1,965,229
	1,965,229	0	0	1,965,229
<i>Capital assets being depreciated:</i>				
Land Improvements	957,587	0	0	957,587
Buildings and Improvements	90,753,743	0	0	90,753,743
Machinery and Equipment	2,503,849	286,002	(307,305)	2,482,546
Vehicles	1,702,008	102,813	0	1,804,821
Total Cost	\$97,882,416	\$388,815	(\$307,305)	\$97,963,926
<i>Accumulated Depreciation:</i>				
Class	June 30, 2012	Additions	Deletions	June 30, 2013
Land Improvements	(\$341,827)	(\$35,057)	\$0	(\$376,884)
Buildings and Improvements	(16,646,768)	(1,771,102)	0	(18,417,870)
Machinery and Equipment	(472,269)	(266,531)	274,630	(464,170)
Vehicles	(989,982)	(109,051)	0	(1,099,033)
Total Depreciation	(\$18,450,846)	(\$2,181,741) *	\$274,630	(\$20,357,957)
<i>Net Value:</i>	\$79,431,570			\$77,605,969

MARION CITY SCHOOL DISTRICT, OHIO

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013**

NOTE 9 - CAPITAL ASSETS (Continued)

A. Governmental Activities Capital Assets (Continued)

* Depreciation expenses were charged to governmental functions as follows:

Instruction	\$1,635,029
Support Services:	
Pupils	22,078
Instructional Staff	85,521
Administration	107,705
Fiscal Services	2,778
Operations & Maintenance of Plant	89,912
Pupil Transportation	96,139
Extracurricular Activities	142,579
Total Depreciation Expense	\$2,181,741

B. Business-Type Activities Capital Assets

Summary by Category at June 30, 2013:

Historical Cost:

Class	June 30, 2012	Additions	Deletions	June 30, 2013
<i>Capital assets not being depreciated:</i>				
Land	\$151,853	\$0	\$0	\$151,853
<i>Capital assets being depreciated:</i>				
Buildings and Improvements	8,616,936	0	0	8,616,936
Machinery and Equipment	13,992	74,159	0	88,151
Total Cost	\$8,782,781	\$74,159	\$0	\$8,856,940

Accumulated Depreciation:

Class	June 30, 2012	Additions	Deletions	June 30, 2013
Buildings and Improvements	(\$1,546,638)	(\$164,728)	\$0	(\$1,711,366)
Machinery and Equipment	(2,915)	(6,085)	0	(9,000)
Total Depreciation	(\$1,549,553)	(\$170,813)	\$0	(\$1,720,366)
<i>Net Value:</i>	\$7,233,228			\$7,136,574

MARION CITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2013

NOTE 10 - RECEIVABLES

Receivables at June 30, 2013 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 Employees 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 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, 2013, the allocation to pension and death benefits was 13.10 percent. The remaining 0.90 percent of the 14 percent employer contribution rate is allocated to the Medicare B and Health Care funds. The District's contributions for pension obligations to SERS for the fiscal years ended June 30, 2013, 2012 and 2011 were \$883,680, \$708,833 and \$562,869 respectively, 85% has been contributed for fiscal year 2013 and 100% for fiscal years 2012 and 2011.

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.

MARION CITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2013

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, 2013, 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 2012, 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 contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2013, 2012, and 2011 were \$3,052,764, \$3,012,752, and \$2,966,568 respectively; 95% has been contributed for fiscal year 2013 and 100% for fiscal years 2012 and 2011.

MARION CITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2013

NOTE 12 - POSTEMPLOYMENT BENEFITS

A. School Employees 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, Medicare Advantage, 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 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 2013, 0.16 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 2013, this amount was \$20,525.

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, 2013, 2012, and 2011 were \$92,349, \$27,847, and \$68,154 respectively; 85% has been contributed for fiscal year 2013 and 100% for fiscal years 2012 and 2011.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2013, this actuarially required allocation was 0.74 percent of covered payroll. The District's contributions for Medicare Part B for the fiscal years ended June 30, 2013, 2012, and 2011 were \$46,709, \$37,973, and \$36,222 respectively; which were equal to the required contributions for each year.

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 or by calling (888) 227-7877.

MARION CITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2013

NOTE 12 - POSTEMPLOYMENT BENEFITS (Continued)

B. State Teachers Retirement System (Continued)

Funding Policy – Ohio Revised Code Chapter 3307 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 2013, 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, 2013, 2012, and 2011 were \$218,055, \$215,196, and \$235,208 respectively; 95% has been contributed for fiscal year 2013 and 100% for fiscal years 2012 and 2011.

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, 2013 is as follows:

		Balance			Balance	Amount Due
		June 30, 2012	Additions	Deductions	June 30, 2013	Within One Year
Governmental Activities:						
General Obligation Bonds:						
2001 School Facilities Construction Serial Bonds	4.375-6.5%	\$2,215,000	\$0	(\$695,000)	\$1,520,000	\$735,000
2007 School Facilities Construction Serial Bonds	4.0-5.0%	6,885,000	0	(155,000)	6,730,000	160,000
Capital Appreciation Bonds Accretion on Capital Appreciation Bonds		805,000	0	0	805,000	0
Bond Premium		509,872	134,035	0	643,907	0
Total School Facility Construction Serial Bonds		563,336	0	(11,355)	551,981	0
Total General Obligation Bonds		8,763,208	134,035	(166,355)	8,730,888	160,000
General Obligation Note:		10,978,208	134,035	(861,355)	10,250,888	895,000
Energy Conservation 3.00%		1,823,390	0	(97,510)	1,725,880	100,650
Capital Leases Payable		94,483	273,762	(113,500)	254,745	42,037
Compensated Absences		3,454,096	41,528	(524,651)	2,970,973	223,928
Total Governmental Activities		16,350,177	449,325	(1,597,016)	15,202,486	1,261,615
Business-Type Activities:						
Compensated Absences		59,810	67,332	(59,810)	67,332	14,362
Total Long-Term Debt and Other Obligations		\$16,409,987	\$516,657	(\$1,656,826)	\$15,269,818	\$1,275,977

MARION CITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2013

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.

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.

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 2013, \$134,035 was accreted on the capital appreciation bonds for a total bond value of \$1,448,907 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 \$25,603,758 with an unvoted debt margin of \$8,750,618 at June 30, 2013.

MARION CITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

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, 2013, follows:

Years	General Obligation Bonds			Total
	Principal	Capital Appreciation	Interest	
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	960,000	0	241,600	1,201,600
2019-2023	5,440,000	0	803,000	6,243,000
2023	0	0	0	0
Totals	\$8,250,000	\$805,000	\$3,335,641	\$12,390,641

General Obligation Note			
Years	Principal	Interest	Total
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	113,532	39,730	153,262
2019-2023	621,771	144,542	766,313
2024-2027	569,129	43,922	613,051
Totals	\$1,725,880	\$419,800	\$2,145,680

MARION CITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2013

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 2013 were \$113,500.

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, 2013:

<u>Year Ending December 31,</u>	<u>Capital Lease</u>
2014	\$83,084
2015	83,083
2016	83,084
2017	83,083
2018	<u>41,542</u>
Minimum Lease Payments	373,876
Less amount representing interest at the City's incremental borrowing rate of interest	<u>(119,131)</u>
Present value of minimum lease payments	<u><u>\$254,745</u></u>

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MARION CITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2013

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:

<u>Type of Coverage</u>	<u>Coverage</u>
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

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2013

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, 2013, 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	717,665
Current Year Offset Credits	(717,665)
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.

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 2013, the School District paid \$72,699 to TRECA for various services. Financial information can be obtained from TRECA, 100 Executive Drive, Marion, Ohio 43302.

MARION CITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2013

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 \$101,056 represent the principal portion. The amount of net appreciation in donor restricted investments that is available for expenditures by the School District is \$5,634 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

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2013

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, 2013.

B. Litigation

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

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MARION CITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2013

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 Position. 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 year end the carrying amount of MCDA's deposits was of \$382,193 and the bank balance was \$578,130. The Federal Deposit Insurance Corporation (FDIC) covered \$250,000 of the bank balance. The remaining \$328,130 was uninsured and collateralized with securities held by the pledging institution's trust department, not in MCDA's name. There are no significant statutory restrictions regarding the deposit and investment of funds by the nonprofit corporation.

C. Capital Assets

Summary by Category at June 30, 2013:

Historical Cost:

Class	June 30, 2012	Additions	Deletions	June 30, 2013
<i>Capital assets being depreciated:</i>				
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:

Class	June 30, 2012	Additions	Deletions	June 30, 2013
Machinery and Equipment	(\$171,631)	(\$3,648)	\$0	(\$175,279)
Total Depreciation	<u>(\$171,631)</u>	<u>(\$3,648)</u>	<u>\$0</u>	<u>(\$175,279)</u>
<i>Net Value:</i>	<u>\$6,517</u>			<u>\$2,869</u>

D. Related Party Transaction

In fiscal year 2013, the Marion City School District received \$451,554 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

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2013

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 Position. 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 year end the carrying amount of the Academy's deposits was of \$764,843 and the bank balance was \$1,050,445. The Federal Deposit Insurance Corporation (FDIC) covered \$250,000 of the bank balance. The remaining \$800,445 was uninsured and collateralized with securities held by the pledging institution's trust department, not in the Academy's name. There are no significant statutory restrictions regarding the deposit and investment of funds by the nonprofit corporation.

C. Capital Assets

Summary by Category at June 30, 2013:

Historical Cost:

<u>Class</u>	<u>June 30, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2013</u>
<i>Capital assets being depreciated:</i>				
Machinery and Equipment	\$222,987	\$3,018	(\$27,840)	\$198,165
Total Cost	<u>\$222,987</u>	<u>\$3,018</u>	<u>(\$27,840)</u>	<u>\$198,165</u>

Accumulated Depreciation:

<u>Class</u>	<u>June 30, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2013</u>
Machinery and Equipment	(\$95,754)	(\$40,917)	\$21,808	(\$114,863)
Total Depreciation	<u>(\$95,754)</u>	<u>(\$40,917)</u>	<u>\$21,808</u>	<u>(\$114,863)</u>
<i>Net Value:</i>	<u>\$127,233</u>			<u>\$83,302</u>

D. Related Party Transaction

In fiscal year 2013, the Marion City School District received \$951,215 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.

**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2013**

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Federal CFDA Number	Receipts	Disbursements
U.S. DEPARTMENT OF AGRICULTURE			
<i>Passed Through Ohio Department of Education</i>			
Child Nutrition Cluster:			
Non - Cash Assistance (Food Distribution):			
National School Lunch Program	10.555	\$ 116,166	\$ 116,166
Cash Assistance:			
School Breakfast Program	10.553	551,655	551,655
National School Lunch Program	10.555	1,591,789	1,591,789
Summer Food Service Program for Children	10.559	147,200	144,528
Cash Assistance Subtotal:		<u>2,290,644</u>	<u>2,287,972</u>
Total Child Nutrition Cluster		<u>2,406,810</u>	<u>2,404,138</u>
Fresh Fruits & Vegetables Program	10.582	89,878	83,418
Team Nutrition Grant	10.574	-	600
Total U.S. Department of Agriculture		<u>2,496,688</u>	<u>2,488,156</u>
U.S. DEPARTMENT OF EDUCATION			
<i>Passed Through Ohio Department of Education</i>			
Title I Grants to Local Educational Agencies	84.010	2,044,772	1,969,643
Safe & Drug Free Schools	84.186	50,000	50,000
Special Education Cluster			
Special Education_Grants to States	84.027	1,087,141	1,129,998
Special Education_Preschool Grants	84.173	39,278	41,618
Total Special Education Cluster		<u>1,126,419</u>	<u>1,171,616</u>
Education Technology State Grants	84.318	14,107	7,626
English Language Acquisition State Grants	84.365	9,527	11,377
Improving Teacher Quality State Grants	84.367	472,006	470,214
ARRA - State Fiscal Stabilization Fund (SFSF) - Race to the Top Incentive Grants, Recovery Act	84.395	226,413	267,919
Race to the Top Incentive Grants	84.395	61,068	61,068
Education Jobs Fund	84.410	607,681	18,488
Total U.S. Department of Education		<u>4,611,993</u>	<u>4,027,951</u>
Total		<u>\$ 7,108,681</u>	<u>\$ 6,516,107</u>

The accompanying notes are an integral part of this schedule.

**MARION CITY SCHOOL DISTRICT
MARION OHIO**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FISCAL YEAR ENDED JUNE 30, 2013**

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Receipts and Expenditures (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 on the Schedule at the entitlement value.



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S 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, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the Marion City School District, Marion County, Ohio (the District) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 5, 2014.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the District's internal control. Accordingly, we have not opined on it.

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 a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the District's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatements, we tested its compliance with certain provisions of law, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining 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*.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Dave Yost
Auditor of State
Columbus, Ohio

March 5, 2014



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S 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:

Report on Compliance for Each Major Federal Program

We have audited the Marion City School District's (the District's) compliance with the applicable 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, 2013. The *Summary of Audit Results* in the accompanying schedule of findings identifies the District's major federal programs.

Management's Responsibility

The District's Management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to opine on the District's compliance for each of the District's major federal programs based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for 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 us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our compliance opinion on the District's major programs. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects with the compliance requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

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

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's applicable 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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with federal program's applicable compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

This report only describes the scope of our internal control compliance tests and the results of this testing based on OMB Circular A-133 requirements. Accordingly, this report is not suitable for any other purpose.



Dave Yost
Auditor of State
Columbus, Ohio

March 5, 2014

**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2013**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unmodified
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
(d)(1)(iv)	Were there any significant deficiencies in internal control reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unmodified
(d)(1)(vi)	Are there any reportable findings under § .510(a)?	No
(d)(1)(vii)	Major Programs (list):	<u>Nutrition Cluster:</u> CFDA # 10.553, 10.555, 10.559 Title I Grants to Local Education Agencies – CFDA #84.010: <u>ARRA/Race to the Top – CFDA #84.395</u>
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

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

None

3. FINDINGS FOR FEDERAL AWARDS

None

**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 .315 (b)
JUNE 30, 2013**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2012-001	Material Noncompliance/ Material Weakness- Allowable Costs/Cost Principles – the District allocated salaries to federal grants based on budgeted amounts.	Yes	N/A



Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURE

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

To the Board of Education:

Ohio Rev. Code Section 117.53 states "the auditor of state shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The auditor of state shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school."

Accordingly, we have performed the procedure enumerated below, which was agreed to by the Board, solely to assist the Board in evaluating whether Marion City School District (the District) has updated its anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedure engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of this procedure is solely the responsibility of the Board. Consequently, we make no representation regarding the sufficiency of the procedure described below either for the purpose for which this report has been requested or for any other purpose.

1. We noted the Board amended its anti-harassment policy at its meeting on December 17, 2012 to include prohibiting harassment, intimidation, or bullying of any student "on a school bus" or by an "electronic act".

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

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

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State
Columbus, Ohio

March 5, 2014

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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
APRIL 8, 2014**