

MARION CITY SCHOOL DISTRICT

MARION COUNTY

AUDIT REPORT

For the Year Ended June 30, 2016



Dave Yost • Auditor of State

Board of Education
Marion City School District
420 Presidential Drive, Suite B
Marion, Ohio 43302

We have reviewed the *Independent Auditor's Report* of the Marion City School District, Marion County, prepared by Charles E. Harris & Associates, Inc., for the audit period July 1, 2015 through June 30, 2016. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Marion City School District is responsible for compliance with these laws and regulations.

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

Dave Yost
Auditor of State

April 7, 2017

**MARION CITY SCHOOL DISTRICT
MARION COUNTY
AUDIT REPORT
For the Year Ended June 30, 2016**

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Charles E. Harris & Associates, Inc.
Certified Public Accountants

REPORT OF INDEPENDENT AUDITORS

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

To the Board of Education:

Report on the Financial Statements

We have audited the accompanying modified cash-basis 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 (the District), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise 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 the modified cash accounting basis Note 1 describes. This responsibility includes determining that the modified cash accounting basis is acceptable for the circumstances. Management is also responsible for 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash financial position 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 as of June 30, 2016, and the respective changes in modified cash financial position and the budgetary comparison for the General Fund thereof for the year then ended in accordance with the accounting basis described in Note 1.

Accounting Basis

Ohio Administrative Code § 117-2-03(B) requires the District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. We draw attention to Note 1 of the financial statements, which describes the basis applied to these statements. The financial statements are prepared on the modified cash basis of accounting, which is a basis other than generally accepted accounting principles. We did not modify our opinion regarding this matter.

Other Matters

Supplemental Information

Our audit was conducted to opine on the financial statements taken as a whole.

The Schedule of Expenditures of Federal Awards presents additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and is 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 Information

We applied no procedures to Management's Discussion & Analysis or to the schedules of net pension liabilities and pension contributions as listed in the table of contents. Accordingly, we express no opinion or any other assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2016 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.



Charles E. Harris & Associates, Inc.
December 15, 2016

MARION CITY SCHOOL DISTRICT, OHIO

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2016

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, 2016. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the financial statements and notes to the basic financial statements to enhance their understanding of the District's financial performance.

FINANCIAL HIGHLIGHTS

Key financial highlights for 2016 are as follows:

- ❑ In total, net position decreased \$838,863. Net position of governmental activities decreased \$688,332, which represents a 4.4% decrease from 2015. Net position of business-type activities decreased \$150,531 or 15.6% from 2015.
- ❑ General receipts accounted for \$27,421,214 or 81% of all receipts for governmental activities. Program specific receipts in the form of charges for services and grants and contributions accounted for \$11,695,790 or 19% of total governmental receipts of \$60,316,195.
- ❑ The District had \$60,819,709 in disbursements related to governmental activities; \$11,695,790 of these disbursements were offset by program specific charges for services and operating grants or contributions. General receipts of \$48,620,405 and net position were adequate to provide for these programs.
- ❑ Among major funds, the General Fund had \$53,599,206 in receipts and \$54,515,169 in disbursements. The General Fund's fund balance decreased \$3,564,808 to \$9,357,755.
- ❑ Net position for the enterprise fund decreased \$176,904.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report is presented in a format consistent with the presentation requirements of Governmental Accounting Standards Board Statement No. 34, as applicable to the District's modified cash basis of accounting.

Report Components

The statement of net position and the statement of activities provide information about the modified cash activities of the District as a whole. Fund financial statements provide a greater level of detail. Funds are created and maintained on the financial records of the District as a way to segregate money whose use is restricted to a particular specified purpose. These statements present financial information by fund, presenting funds with the largest balances or most activity in separate columns. The notes to the financial statements are an integral part of the District's government-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the statements.

MARION CITY SCHOOL DISTRICT, OHIO

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016*

Unaudited

Basis of Accounting

The basis of accounting is a set of guidelines that determine when financial events are recorded. The District has elected to present its financial statements on a modified cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Under the District's modified cash basis of accounting, receipts and disbursements are recorded when cash is received or paid. As a result of using the modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable) and certain liabilities and their related expenses (such as accounts payable) are not recorded in the financial statements. Therefore, when reviewing the financial information and discussion within this report, the reader must keep in mind the limitations resulting from the use of the modified cash basis of accounting.

Government-Wide Statements

The statement of net position and the statement of activities reflect how the District did financially during 2016, within the limitations of modified cash basis accounting. The statement of net position presents the cash balances and investments of the governmental activities of the District at fiscal year-end. The statement of activities compares cash disbursements with program receipts for each governmental program. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts and interest are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function draws from the District's general receipts. These statements report the District's cash position and the changes in cash position. Keeping in mind the limitations of the modified cash basis of accounting, you can think of these changes as one way to measure the District's financial health. Over time, increases or decreases in the District's cash position is one indicator of whether the District's financial health is improving or deteriorating. When evaluating the District's financial condition, you should also consider other nonfinancial factors as well such as the District's property tax base, the condition of the District's capital assets, the extent of the District's debt obligations, the reliance on non-local financial resources for operations and the need for continued growth in the major local revenue sources such as property taxes.

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 costs 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.

MARION CITY SCHOOL DISTRICT, OHIO

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016*

Unaudited

Governmental Funds – Most of the District's activities are reported in governmental funds. The governmental fund financial statements provide a detailed view of the District's governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent to finance the District's programs. The District's significant governmental funds are presented on the financial statements in separate columns. The information for nonmajor funds (funds whose activity or balances are not large enough to warrant separate reporting) is combined and presented in total in a single column. The programs reported in governmental funds are closely related to those reported in the governmental activities section of the entity-wide statements. 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.

Proprietary Funds – When the District charges customers for the services it provides, these services are generally reported in proprietary funds. When the services are provided to the general public, the activity is reported as an enterprise fund. When the services are provided to other departments of the District, the service is reported as an internal service fund.

Fiduciary Funds – The District is the trustee, or fiduciary, for various student managed activity programs, various scholarship programs and other items listed as agency. 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 2016 compared to 2015.

	Governmental		Business-type		Total	
	Activities		Activities			
	2016	2015	2016	2015	2016	2015
Cash and Investments	\$15,131,041	\$15,819,373	\$813,340	\$963,871	\$15,944,381	\$16,783,244
Total assets	15,131,041	15,819,373	813,340	963,871	15,944,381	16,783,244
Net position						
Restricted	4,106,127	2,095,642	0	0	4,106,127	2,095,642
Unrestricted	11,024,914	13,723,731	813,340	963,871	11,838,254	14,687,602
Total net position	\$15,131,041	\$15,819,373	\$813,340	\$963,871	\$15,944,381	\$16,783,244

The District's net position decreased 5%. The largest contributing factor to this change was the increase in distributions across the board.

MARION CITY SCHOOL DISTRICT, OHIO

**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016**

Unaudited

Changes in Net Position – The following table shows the changes in net position for the fiscal year 2016 compared to 2015:

	Governmental		Business-type		Total	
	2016	2015	2016	2015	2016	2015
Receipts						
Program Receipts:						
Charges for Services and Sales	\$2,640,809	\$2,238,029	\$138,493	\$84,890	\$2,779,302	\$2,322,919
Operating Grants	9,054,981	10,863,469	3,550,617	3,005,061	12,605,598	13,868,530
Total Program Receipts	<u>11,695,790</u>	<u>13,101,498</u>	<u>3,689,110</u>	<u>3,089,951</u>	<u>15,384,900</u>	<u>16,191,449</u>
General revenues:						
Property Taxes	9,720,906	9,522,512	0	0	9,720,906	9,522,512
Payments in Lieu of Taxes	3,595	9,088	0	0	3,595	9,088
Grants and Entitlements	38,386,087	35,686,523	0	0	38,386,087	35,686,523
Other	509,817	438,067	441	375	510,258	438,442
Total General Receipts	<u>48,620,405</u>	<u>45,656,190</u>	<u>441</u>	<u>375</u>	<u>48,620,846</u>	<u>45,656,565</u>
Total Receipts	<u>60,316,195</u>	<u>58,757,688</u>	<u>3,689,551</u>	<u>3,090,326</u>	<u>64,005,746</u>	<u>61,848,014</u>
Program Disbursements						
Instruction	33,477,352	32,319,187	0	0	33,477,352	32,319,187
Support Services:						
Pupils	2,810,360	2,720,944	0	0	2,810,360	2,720,944
Instructional Staff	3,460,185	3,394,877	0	0	3,460,185	3,394,877
Board of Education	41,966	51,725	0	0	41,966	51,725
Administration	4,059,706	5,022,027	0	0	4,059,706	5,022,027
Fiscal Services	876,371	798,095	0	0	876,371	798,095
Business	434,791	461,657	0	0	434,791	461,657
Operation and Maintenance of Plant	4,489,851	5,051,710	0	0	4,489,851	5,051,710
Pupil Transportation	1,472,391	1,337,436	0	0	1,472,391	1,337,436
Central	1,030,173	1,248,504	0	0	1,030,173	1,248,504
Non-Instructional Services	4,814,728	3,950,674	0	0	4,814,728	3,950,674
Extracurricular Activities	959,905	861,344	0	0	959,905	861,344
Capital Outlay	1,465,336	914,378	0	0	1,465,336	914,378
Debt Service:						
Principal	559,483	1,086,791	0	0	559,483	1,086,791
Interest and Fiscal Charges	867,111	384,930	0	0	867,111	384,930
Food Service	0	0	4,004,638	3,054,786	4,004,638	3,054,786
Uniform School Supplies	0	0	20,262	0	20,262	0
Total Disbursements	<u>60,819,709</u>	<u>59,604,279</u>	<u>4,024,900</u>	<u>3,054,786</u>	<u>64,844,609</u>	<u>62,659,065</u>
Excess (Deficiency) Before						
Transfers/Advances	(503,514)	(846,591)	(335,349)	35,540	(838,863)	(811,051)
Transfers/Advances In (Out)	(184,818)	0	184,818	0	0	0
Total Change in Net Position	<u>(688,332)</u>	<u>(846,591)</u>	<u>(150,531)</u>	<u>35,540</u>	<u>(838,863)</u>	<u>(811,051)</u>
Beginning Net Position	<u>15,819,373</u>	<u>16,665,964</u>	<u>963,871</u>	<u>928,331</u>	<u>16,783,244</u>	<u>17,594,295</u>
Ending Net Position	<u><u>\$15,131,041</u></u>	<u><u>\$15,819,373</u></u>	<u><u>\$813,340</u></u>	<u><u>\$963,871</u></u>	<u><u>\$15,944,381</u></u>	<u><u>\$16,783,244</u></u>

Governmental Activities

Net position of the District's governmental activities decreased \$688,332. Overall, disbursements remained stable, increasing approximately 2.0%.

The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. In general, 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

MARION CITY SCHOOL DISTRICT, OHIO

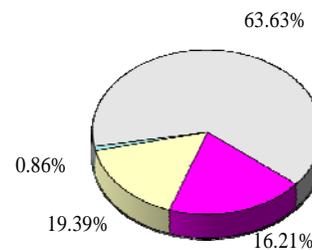
**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016**

Unaudited

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 for the District has already been reduced to the 20 mill floor. Consequently, the District will receive some increased revenues as property values increase with reappraisals.

Property and income taxes made up 16.12% of receipts for governmental activities for Marion City Schools in fiscal year 2016. The District's reliance upon tax receipts is demonstrated by the following graph:

Revenue Sources	2016	Percent of Total
General Grants	\$38,386,087	63.63%
Program Revenues	11,695,790	19.39%
General Tax Revenues	9,724,501	16.12%
General Other	509,817	0.86%
Total Revenue	<u>\$60,316,195</u>	<u>100.00%</u>



Business-Type Activities

Net position of the business-type activities decreased \$150,531. 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 \$13,463,882, which is below last year's balance of \$14,950,565. The schedule below indicates the fund balance and the total change in fund balance by fund type as of June 30, 2016 and 2015.

	Fund Balance June 30, 2016	Fund Balance June 30, 2015	Increase (Decrease)
General	\$9,357,755	\$12,922,563	(\$3,564,808)
Other Governmental	4,106,127	2,028,002	2,078,125
Total	<u>\$13,463,882</u>	<u>\$14,950,565</u>	<u>(\$1,486,683)</u>

MARION CITY SCHOOL DISTRICT, OHIO

**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016**

Unaudited

General Fund – The District's General Fund balance decrease was due to many factors. The tables that follow assist in illustrating the financial activities and balance of the General Fund:

	2016 Receipts	2015 Receipts	Increase (Decrease)
Taxes	\$8,492,741	\$8,312,786	\$179,955
Payment in Lieu of Taxes	3,595	9,088	(5,493)
Tuition and Fees	2,134,118	2,038,329	95,789
Investment Earnings	77,935	70,794	7,141
Extracurricular Activities	41,065	40,497	568
Intergovernmental	42,419,271	41,064,453	1,354,818
All Other Revenue	430,481	316,800	113,681
Total	\$53,599,206	\$51,852,747	\$1,746,459

General Fund receipts in 2016 increased by 3.4%. The increase is the result of an increase in the funding from the State.

	2016 Disbursements	2015 Disbursements	Increase (Decrease)
Instruction	\$31,725,218	\$30,489,293	\$1,235,925
Supporting Services:			
Pupils	2,720,396	2,666,966	53,430
Instructional Staff	1,104,731	765,147	339,584
Board of Education	41,966	51,725	(9,759)
Administration	4,085,531	4,824,314	(738,783)
Fiscal Services	851,569	766,194	85,375
Business	444,125	463,203	(19,078)
Operation & Maintenance of Plant	4,220,567	4,919,183	(698,616)
Pupil Transportation	1,390,488	1,268,915	121,573
Central	1,042,940	1,250,797	(207,857)
Operation of Non-Instructional Services	4,741,472	3,879,588	861,884
Extracurricular Activities	753,838	655,091	98,747
Capital Outlay	1,191,334	820,095	371,239
Principal Retirement	139,483	131,791	7,692
Interest and Fiscal Charges	61,511	90,418	(28,907)
Total	\$54,515,169	\$53,042,720	\$1,472,449

General fund expenditures increased by 2.8% during 2016 compared to 2015. The largest increase came in the Instruction and Non-Instructional Services disbursements.

MARION CITY SCHOOL DISTRICT, OHIO

***Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016***

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

During the course of fiscal year 2016 the District did not amend its General Fund budget. Final budget basis revenue of \$53.3 million was the same as the original estimates. Actual budget basis revenue was \$53.5 million during the year.

Debt

At June 30, 2016, the District had \$8.4 million in bonds outstanding, \$385,000 due within one year. The following table summarizes the District's long term obligations as of June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Governmental Activities:		
General Obligation Bonds	\$8,430,788	\$8,687,178
General Obligation Notes	1,913,683	2,053,166
Capital Leases Payable	<u>107,171</u>	<u>164,145</u>
Totals	<u><u>\$10,451,642</u></u>	<u><u>\$10,904,489</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, 2015, 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 10.

MARION CITY SCHOOL DISTRICT, OHIO

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016*

Unaudited

ECONOMIC FACTORS

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.

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 Veronica Reinhart, Treasurer of Marion City School District, 420 Presidential Drive, Suite B, Marion, Ohio 43302.

MARION CITY SCHOOL DISTRICT, OHIO

Statement of Net Position – Modified Cash Basis June 30, 2016

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	Marion City Digital Academy	Rushmore Academy
Assets:					
Pooled Cash and Investments	\$ 15,131,041	\$ 813,340	\$ 15,944,381	\$ 690,912	\$ 1,145,237
Total Assets	<u>15,131,041</u>	<u>813,340</u>	<u>15,944,381</u>	<u>690,912</u>	<u>1,145,237</u>
Net Position:					
Restricted For:					
Capital Projects	1,090,183	0	1,090,183	0	0
Debt Service	829,280	0	829,280	0	0
Other Purposes	2,184,438	0	2,184,438	11,110	7,414
Permanent Fund:					
Nonexpendable	2,226	0	2,226	0	0
Unrestricted	11,024,914	813,340	11,838,254	679,802	1,137,823
Total Net Position	<u>\$ 15,131,041</u>	<u>\$ 813,340</u>	<u>\$ 15,944,381</u>	<u>\$ 690,912</u>	<u>\$ 1,145,237</u>

See accompanying notes to the basic financial statements

MARION CITY SCHOOL DISTRICT, OHIO

Statement of Activities – Modified Cash Basis For the Fiscal Year Ended June 30, 2016

	Program Cash Receipts		
	Cash Disbursements	Charges for Services and Sales	Operating Grants and Contributions
Governmental Activities:			
Instruction	\$ 33,477,352	\$ 2,134,118	\$ 6,692,663
Support Services:			
Pupils	2,810,360	0	106,974
Instructional Staff	3,460,185	0	1,929,141
Board of Education	41,966	0	0
Administration	4,059,706	0	206,758
Fiscal Services	876,371	0	0
Business	434,791	0	0
Operation and Maintenance of Plant	4,396,725	0	0
Pupil Transportation	1,472,391	0	53,937
Central	1,030,173	0	0
Operation of Non-Instructional Services	4,814,728	0	65,508
Extracurricular Activities	959,905	506,691	0
Capital Outlay	1,465,336	0	0
Principal Retirement	616,457	0	0
Interest and Fiscal Charges	903,263	0	0
Total Governmental Activities	60,819,709	2,640,809	9,054,981
Business-Type Activities:			
Food Service	4,004,638	138,493	3,550,617
Uniform School Supplies	20,262	0	0
Total Business-Type Activities	4,024,900	138,493	3,550,617
Totals	\$ 64,844,609	\$ 2,779,302	\$ 12,605,598
Component Units:			
Marion City Digital Academy	\$ 1,004,365	\$ 0	\$ 171,751
Rushmore Academy	3,034,467	0	904,521
Total Component Units	\$ 4,038,832	\$ 0	\$ 1,076,272

General Cash Receipts

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

Advances

Total General Cash Receipts

Change in Net Position

Net Position Beginning of Year, Restated

Net Position End of Year

See accompanying notes to the basic financial statements

MARION CITY SCHOOL DISTRICT, OHIO

Net (Disbursements) Receipts and Changes in Net Position				
Primary Government			Component Units	
Governmental Activities	Business-Type Activities	Total	Marion City Digital Academy	Rushmore Academy
\$ (24,650,571)	\$ 0	\$ (24,650,571)		
(2,703,386)	0	(2,703,386)		
(1,531,044)	0	(1,531,044)		
(41,966)	0	(41,966)		
(3,852,948)	0	(3,852,948)		
(876,371)	0	(876,371)		
(434,791)	0	(434,791)		
(4,396,725)	0	(4,396,725)		
(1,418,454)	0	(1,418,454)		
(1,030,173)	0	(1,030,173)		
(4,749,220)	0	(4,749,220)		
(453,214)	0	(453,214)		
(1,465,336)	0	(1,465,336)		
(616,457)	0	(616,457)		
(903,263)	0	(903,263)		
(49,123,919)	0	(49,123,919)		
0	(315,528)	(315,528)		
0	(20,262)	(20,262)		
0	(335,790)	(335,790)		
(49,123,919)	(335,790)	(49,459,709)		
			\$ (832,614)	\$ 0
			0	(2,129,946)
			(832,614)	(2,129,946)
8,492,741	0	8,492,741	0	0
127,339	0	127,339	0	0
1,100,826	0	1,100,826	0	0
3,595	0	3,595	0	0
38,386,087	0	38,386,087	1,082,320	2,190,678
77,936	441	78,377	227	0
431,881	0	431,881	901	77,472
(184,818)	184,818	0		
48,435,587	185,259	48,620,846		
(688,332)	(150,531)	(838,863)	250,834	138,204
15,819,373	963,871	16,783,244	440,078	1,007,033
\$ 15,131,041	\$ 813,340	\$ 15,944,381	\$ 690,912	\$ 1,145,237

MARION CITY SCHOOL DISTRICT, OHIO

**Statement of Assets and Fund Balances – Modified Cash Basis
Governmental Funds
June 30, 2016**

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:			
Pooled Cash and Investments	\$ 9,357,755	\$ 4,106,127	\$ 13,463,882
Total Assets	<u>\$ 9,357,755</u>	<u>\$ 4,106,127</u>	<u>\$ 13,463,882</u>
Fund Balance:			
Nonspendable	0	2,226	2,226
Restricted	0	4,103,901	4,103,901
Assigned	1,728,348	0	1,728,348
Unassigned	7,629,407	0	7,629,407
Total Fund Balances	<u>\$ 9,357,755</u>	<u>\$ 4,106,127</u>	<u>\$ 13,463,882</u>

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 – Modified Cash Basis June 30, 2016

Total Governmental Fund Balances \$ 13,463,882

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

Internal service funds are used by management to charge
the costs of insurance to individual funds. The assets
and liabilities of the internal service funds are included in
governmental activities in the statement of net position.

1,667,159

Net Position of Governmental Activities

\$ 15,131,041

See accompanying notes to the basic financial statements

MARION CITY SCHOOL DISTRICT, OHIO

Statement of Receipts, Disbursements and Changes in Fund Balances Governmental Funds – Modified Cash Basis For the Fiscal Year Ended June 30, 2016

	General	Other Governmental Funds	Total Governmental Funds
Receipts:			
Local Sources:			
Property Taxes	\$ 8,492,741	\$ 1,228,165	\$ 9,720,906
Payments in Lieu of Taxes	3,595	0	3,595
Tuition	2,131,768	0	2,131,768
Investment Earnings	77,935	1	77,936
Extracurricular Activities	41,065	159,127	200,192
Class Materials and Fees	2,350	0	2,350
Intermediate Sources	0	26,037	26,037
Intergovernmental - State	41,930,872	706,507	42,637,379
Intergovernmental - Federal	488,399	4,223,192	4,711,591
All Other Revenue	430,481	372,560	803,041
Total Receipts	53,599,206	6,715,589	60,314,795
Disbursements:			
Current:			
Instruction	31,725,218	2,279,536	34,004,754
Supporting Services:			
Pupils	2,720,396	132,759	2,853,155
Instructional Staff	1,104,731	2,399,489	3,504,220
Board of Education	41,966	0	41,966
Administration	4,085,531	40,429	4,125,960
Fiscal Services	851,569	34,469	886,038
Business	444,125	0	444,125
Operation and Maintenance of Plant	4,127,441	310,975	4,438,416
Pupil Transportation	1,390,488	106,538	1,497,026
Central	1,042,940	0	1,042,940
Operation of Non-Instructional Services	4,741,472	73,628	4,815,100
Extracurricular Activities	753,838	225,466	979,304
Capital Outlay	1,191,334	274,002	1,465,336
Debt Service:			
Principal Retirement	196,457	420,000	616,457
Interest and Fiscal Charges	97,663	805,600	903,263
Total Disbursements	54,515,169	7,102,891	61,618,060
Deficiency of Receipts Over Disbursements	(915,963)	(387,302)	(1,303,265)

MARION CITY SCHOOL DISTRICT, OHIO

	General	Other Governmental Funds	Total Governmental Funds
Other Financing Sources (Uses):			
Sale of Capital Assets	1,400	0	1,400
Advances In	0	1,015,427	1,015,427
Advances Out	(1,200,245)	0	(1,200,245)
Transfers In	0	1,450,000	1,450,000
Transfers Out	(1,450,000)	0	(1,450,000)
Total Other Financing Sources (Uses)	(2,648,845)	2,465,427	(183,418)
Net Change in Fund Balance	(3,564,808)	2,078,125	(1,486,683)
Fund Balance at Beginning of Year, Restated	12,922,563	2,028,002	14,950,565
Fund Balance End of Year	\$ 9,357,755	\$ 4,106,127	\$ 13,463,882

See accompanying notes to the basic financial statements

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MARION CITY SCHOOL DISTRICT, OHIO

***Reconciliation of the Statement of Receipts, Disbursements and
Changes in Fund Balances of Governmental Funds
To the Statement of Activities – Modified Cash Basis
For the Fiscal Year Ended June 30, 2016***

Net Change in Fund Balances - Total Governmental Funds \$ (1,486,683)

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

The internal service funds are used by management to charge the costs of services to individual funds and is not reported in the statement of activities. Governmental fund expenditures and related internal service fund revenues are eliminated. The net revenue (expense) of the internal service funds are allocated among the governmental activities.

798,351

Change in Net Position of Governmental Activities

\$ (688,332)

See accompanying notes to the basic financial statements

MARION CITY SCHOOL DISTRICT, OHIO

**Statement of Receipts, Disbursements and Changes in
Fund Balance – Budget and Actual (Budgetary Basis)
General Fund
For the Fiscal Year Ended June 30, 2016**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
Receipts:				
Local Sources:				
Property Taxes	\$ 8,312,786	\$ 8,312,786	\$ 8,492,741	\$ 179,955
Payment in Lieu of Taxes	9,088	9,088	3,595	(5,493)
Tuition	2,258,772	2,258,772	2,131,768	(127,004)
Investment Earnings	70,000	70,000	77,935	7,935
Extracurricular Activities	39,302	39,302	41,065	1,763
Class Material and Fees	2,003	2,003	2,160	157
Intergovernmental - State	41,813,574	41,813,574	41,930,872	117,298
Intergovernmental - Federal	222,438	222,438	488,399	265,961
All Other Revenues	664,261	664,261	356,939	(307,322)
Total Revenues	<u>53,392,224</u>	<u>53,392,224</u>	<u>53,525,474</u>	<u>133,250</u>
Disbursements:				
Current:				
Instructional Services:				
Regular	25,184,789	24,748,619	24,748,619	0
Special	6,699,118	6,603,228	6,507,067	96,161
Vocational	339,779	388,099	388,099	0
Adult/Continuing	3	3	0	3
Other	530,126	250,990	93,232	157,758
Support Services:				
Pupils	2,462,908	2,721,391	2,721,391	0
Instructional Staff	1,059,400	1,109,775	1,109,775	0
Board of Education	43,765	43,765	41,966	1,799
Administration	3,964,932	4,020,919	4,020,919	0
Fiscal Services	763,060	851,669	851,669	0
Business	553,495	554,495	444,125	110,370
Operation and Maintenance of Plant	4,125,017	4,127,541	4,127,441	0
Pupil Transportation	1,409,740	1,441,740	1,390,488	51,252
Central	977,855	1,042,940	1,042,940	0
Operation of Non-Instructional Services	4,780,823	4,780,823	4,741,472	39,351
Extracurricular Activities	633,971	753,838	753,838	0
Capital Outlay	1,203,853	1,203,853	1,193,452	10,401
Debt Service:				
Principal Retirement	196,474	196,474	196,457	17
Interest and Fiscal Charges	67,152	97,663	97,663	0
Total Expenditures	<u>54,996,260</u>	<u>54,937,825</u>	<u>54,470,713</u>	<u>467,112</u>
Excess (Deficiency) of Receipts Over (Under) Disbursements	(1,604,036)	(1,545,601)	(945,239)	600,362

MARION CITY SCHOOL DISTRICT, OHIO

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Other Financing Sources (Uses):				
Proceeds from the Sale of Capital Assets	0	0	1,400	1,400
Transfers Out	(1,475,000)	(1,475,000)	(1,450,000)	25,000
Advances Out	(921,109)	(1,200,245)	(1,200,245)	0
Total Other Financing Sources (Uses):	<u>(2,396,109)</u>	<u>(2,675,245)</u>	<u>(2,648,845)</u>	<u>26,400</u>
 Net Change in Fund Balance	 (4,000,145)	 (4,220,846)	 (3,594,084)	 626,762
 Fund Balance at Beginning of Year	 11,036,143	 11,036,143	 11,036,143	 0
Prior Year Encumbrances	1,831,789	1,831,789	1,831,789	0
Fund Balance at End of Year	<u>\$ 8,867,787</u>	<u>\$ 8,647,086</u>	<u>\$ 9,273,848</u>	<u>\$ 626,762</u>

See accompanying notes to the basic financial statements

MARION CITY SCHOOL DISTRICT, OHIO

**Statement of Fund Net Position – Modified Cash Basis
Proprietary Fund
June 30, 2016**

	Business-Type Activities			Governmental Activities - Internal Service Fund
	Enterprise Funds			
	Food Service	Other Enterprise	Total	
Assets:				
<i>Current Assets:</i>				
Pooled Cash and Investments	\$ 726,007	\$ 60,960	\$ 786,967	\$ 1,693,532
Total Assets	<u>726,007</u>	<u>60,960</u>	<u>786,967</u>	<u>1,693,532</u>
Net Position:				
Unrestricted	726,007	60,960	786,967	1,693,532
Total Net Position	<u>\$ 726,007</u>	<u>\$ 60,960</u>	<u>786,967</u>	<u>\$ 1,693,532</u>
Adjustment to reflect the consolidation of internal service fund activities related to the enterprise funds.			<u>26,373</u>	
Net Position of Business-type Activities			<u>\$ 813,340</u>	

See accompanying notes to the basic financial statements

MARION CITY SCHOOL DISTRICT, OHIO

Statement of Receipts, Disbursements and Changes in Fund Net Position
– Modified Cash Basis
Proprietary Fund
For the Fiscal Year Ended June 30, 2016

	Business-Type Activities			Governmental Activities - Internal Service Fund
	Enterprise Funds			
	Food Service	Other Enterprise	Total	
Operating Receipts:				
Sales	\$ 134,775	\$ 0	\$ 134,775	\$ 0
Interfund Charges	0	0	0	6,958,575
Other Operating Revenues	3,718	0	3,718	0
Total Operating Receipts	138,493	0	138,493	6,958,575
Operating Disbursements:				
Salaries and Wages	910,883	0	910,883	0
Fringe Benefits	290,629	0	290,629	0
Contractual Services	190,596	1,590	192,186	6,134,091
Supplies and Materials	1,929,702	18,672	1,948,374	0
Capital Outlay	709,201	0	709,201	0
Total Operating Disbursements	4,031,011	20,262	4,051,273	6,134,091
Operating Income (Loss)	(3,892,518)	(20,262)	(3,912,780)	824,484
Nonoperating Receipts (Disbursements):				
Federal Donated Commodities	198,659	0	198,659	0
Operating Grants	3,351,958	0	3,351,958	0
Investment Earnings	441	0	441	240
Total Nonoperating Receipts (Disbursements)	3,551,058	0	3,551,058	240
Income (Loss) Before Advances	(341,460)	(20,262)	(361,722)	824,724
Advances:				
Advances In	166,068	18,750	184,818	0
Change in Net Position	(175,392)	(1,512)	(176,904)	824,724
Net Position Beginning of Year, Restated	901,399	62,472	963,871	868,808
Net Position End of Year	<u>\$ 726,007</u>	<u>\$ 60,960</u>	<u>786,967</u>	<u>\$ 1,693,532</u>
Change in Net Position - Total Enterprise Funds			\$ (176,904)	
Adjustment to reflect the consolidation of internal service fund activities related to the enterprise funds.			26,373	
Change in Net Position - Business-type Activities			<u>\$ (150,531)</u>	

See accompanying notes to the basic financial statements

MARION CITY SCHOOL DISTRICT, OHIO

**Statement of Net Position – Modified Cash Basis
Fiduciary Funds
June 30, 2016**

	Private Purpose Trust	Agency
	<u> </u>	<u> </u>
Assets:		
Cash and Cash Equivalents	\$ 106,832	\$ 17,059
	<u> </u>	<u> </u>
Liabilities:		
Due to Students	0	17,059
	<u> </u>	<u> </u>
Net Position:		
Held in Trust for Scholarships	6,765	
Endowments	100,067	
	<u> </u>	
Total Net Position	<u>\$ 106,832</u>	

See accompanying notes to the basic financial statements

MARION CITY SCHOOL DISTRICT, OHIO

**Statement of Changes in Net Position – Modified Cash Basis
Fiduciary Fund
For the Fiscal Year Ended June 30, 2016**

	Private Purpose Trust
Additions:	
Contributions:	
Private Donations	\$ 1,000
Total Contributions	<u>\$ 1,000</u>
Investment Earnings:	
Interest	<u>32</u>
Total Investment Earnings	<u>32</u>
Total Additions	<u>1,032</u>
Deductions:	
Total Deductions	<u>0</u>
Change in Net Position	1,032
Net Position at Beginning of Year	<u>105,800</u>
Net Position End of Year	<u><u>\$ 106,832</u></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, 2016

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 239 noncertified and approximately 418 certified teaching personnel and administrative employees providing education to 4,546 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 18 and 19 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, 2016

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 District's reporting entity:

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

The District participates in two jointly governed organizations, one insurance pool, and a related organization. These organizations are the Metropolitan Educational Technology Association (META), 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 14, 12, and 15 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. The various funds are summarized by type in the basic financial statements.

The following fund types are used by the District:

Governmental Funds - The District classifies funds financed primarily from taxes, intergovernmental receipts (e.g. grants), and other nonexchange transactions as governmental funds. The following is the District's major governmental fund:

MARION CITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation - Fund Accounting (Continued)

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 District classifies funds financed primarily from user charges for goods or services as proprietary. Proprietary funds are classified as either enterprise funds or internal service funds.

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 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.

Internal Service Fund - The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the District on a cost reimbursement basis. The District's internal service fund accounts for the activities of the self-insurance program for employee prescription drug, dental, and health care benefits.

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, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Presentation – Financial Statements

The District's basic financial statements consist of government-wide financial statements, including a statement of net position and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

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. Internal service fund activity is eliminated to avoid “doubling up” receipts and disbursements. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

The government-wide statement of net position presents the cash balance of the governmental activities of the District at fiscal year end. The statement of activities compares disbursements with program receipts for each function or program of the District's governmental activities. Disbursements are reported by function. A function is a group of related activities designed to accomplish a major service or regulatory program for which the government is responsible. Program receipts include charges paid by the recipient of the program's goods or services, grants and contributions restricted to meeting the operational or capital requirements of a particular program, and receipts of interest earned on grants that are required to be used to support a particular program. General receipts are all receipts not classified as program receipts, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function is self-financing on a cash basis or draws from the District's general receipts.

Fund Financial Statements – During the fiscal year, the District segregates transactions related to certain District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the District at this more detailed level. 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.

MARION CITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Accounting

The District's financial statements are prepared using the modified cash basis of accounting. Receipts are recorded in the District's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

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, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process (Continued)

2. Estimated Resources

Prior to March 15, 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 disbursements 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 reflect the amounts in the final amended official certificate of estimated resources issued during fiscal year 2016.

3. Appropriations

A temporary appropriation measure to control disbursements 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 among departments and objects within a fund may be modified during the year with approval of the Board. During the year, several supplemental appropriations were necessary to budget the use of contingency funds. Administrative control is maintained through the establishment of more detailed line-item budgets. The budgetary figures which appear in the "Statement of Receipts, Disbursements, and Changes in Fund Balances-Budget and Actual" are provided on the budgetary basis to provide a comparison of actual results to the final budget, including all amendments and modifications.

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, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process (Continued)

5. Basis of Budgeting

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Statement of Receipts, Disbursements and Changes in Fund Balance – Budget and Actual – Budgetary Basis presented for the General Fund is prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference between the budgetary basis and the cash basis is outstanding year end encumbrances are treated as cash disbursements (budgetary basis) rather than as restricted, committed or assigned fund balance (cash basis). The following table summarizes the adjustments necessary to reconcile the modified cash basis statements to the budgetary basis statements for the General Fund:

Net Change in Fund Balance	
	General Fund
Cash Basis (as reported)	(\$3,564,808)
Perspective Difference-	
Budgeted Special Revenue Funds reclassified as General Fund	9,893
Encumbrances Outstanding	(39,169)
Budget Basis	<u>(\$3,594,084)</u>

F. Cash and Cash Equivalents

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 5, “Cash, Cash Equivalents and Investments.”

During fiscal year 2016, 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.

MARION CITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Cash and Cash Equivalents (Continued)

The School District's investment in the State Treasury Asset Reserve of Ohio (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 and is recognized as an external investment pool by the School District. The School District measures their investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides a NAV per share that approximates fair value.

For the fiscal year 2016, there were no limitation or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$50 million, requiring the excess amount to be transacted the following business day(s), but only to the \$50 million limit. All accounts of the participant will be combined for these purposes.

The School District allocates interest earnings according to State statutes. Interest revenue credited to the General Fund during fiscal year 2016 was \$77,935, which includes \$32,515 assigned from other School District funds.

G. Inventory and Prepaid Items

The District reports disbursements for inventory and prepaid items when paid. These items are not reflected as assets in the accompanying financial statements.

H. Capital Assets

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

I. Long-Term Obligations

The District's modified cash basis financial statements do not report liabilities for bonds and other long-term obligations. Proceeds of debt are reported when cash is received and principal and interest payments are reported when paid.

J. Accumulated Leave

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

MARION CITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Net Position

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 a cash disbursement is incurred for purposes for which both restricted and unrestricted net position are available.

L. Fund Balance

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

Nonspendable - The nonspendable fund balance 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.

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.

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.

MARION CITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Fund Balance (Continued)

The District applies restricted resources first when disbursements 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 disbursements are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

M. Employer Contributions to Cost-Sharing Pension Plans

The District recognizes the disbursements for employer contributions to cost-sharing pension plans when they are paid. The employer contributions include portions for pension benefits and for postretirement health care benefits.

N. Pension Plans

For purposes of measuring the net pension liability, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

O. Interfund Receivables/Payable

The District reports advances-in and advances-out for interfund loans. These items are not reflected as assets and liabilities in the accompanying financial statements.

P. Interfund Transactions

Exchange transactions between funds are reported as receipts in the seller funds and as disbursements in the purchaser funds. Subsidies 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. Interfund transfers between governmental funds are eliminated on the Statement of Activities. Repayments from funds responsible for particular cash disbursements to the funds that initially paid for them are not presented on the financial statements.

Q. Operating Receipts and Disbursements

Proprietary fund statements distinguish operating transactions from nonoperating transactions. Operating receipts generally result from exchange transactions such as charges for services directly relating to the fund's principal services. Operating disbursements include costs of sales and services and administrative costs. The fund statements report all other receipts and disbursements as nonoperating.

MARION CITY SCHOOL DISTRICT, OHIO

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016**

NOTE 2 – CHANGE IN BASIS OF ACCOUNTING AND RESTATEMENT OF NET POSITION/FUND BALANCE

For fiscal year 2016, the District ceased to report using generally accepted accounting principles and reported on the modified cash basis as described in Note 1.

The implementation of this change had the following effects on fund equity of the major and nonmajor funds of the District as they were previously reported. The effects on net position of governmental activities are also presented.

	General Fund	Other Governmental Funds	Total Governmental Funds
Fund Balance, June 30, 2015 as reported	\$9,944,769	\$2,411,083	\$12,355,852
Eliminations:			
Asset Accruals	(10,832,549)	(2,420,030)	(13,252,579)
Inventory	(24,834)	0	(24,834)
Prepaid Items	(93,449)	0	(93,449)
Deferred Inflows	7,723,003	1,369,203	9,092,206
Liability Accruals	6,205,623	667,746	6,873,369
Fund Balance, June 30, 2015 as restated	\$12,922,563	\$2,028,002	\$14,950,565

	Governmental Activities
Net Position, June 30, 2015 as reported	\$12,545,650
Eliminations:	
Asset Accruals	(13,239,690)
Inventory	(24,834)
Prepaid Items	(93,449)
Internal Balance	17,762
Deferred Outflows	(4,500,293)
Capital Assets	(73,561,191)
Liability Accruals	7,117,609
Deferred Inflows	15,775,636
Long-term Liabilities	71,782,173
Net Position, June 30, 2015 as restated	\$15,819,373

MARION CITY SCHOOL DISTRICT, OHIO

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016*

NOTE 2 – CHANGE IN BASIS OF ACCOUNTING AND RESTATEMENT OF NET POSITION/FUND BALANCE (Continued)

	Business-Type Activities	Entity-wide Business-Type Activities	Internal Service Funds
Net Position, June 30, 2015 as reported	\$6,750,832	\$6,768,594	\$616,983
Eliminations:			
Asset Accruals	(425,295)	(425,295)	(56,976)
Inventory	(60,441)	(60,441)	0
Capital Assets	(6,815,818)	(6,815,818)	0
Internal Balance	0	(17,762)	0
Deferred Outflows	(100,287)	(100,287)	0
Liability Accruals	272,375	272,375	308,801
Deferred Inflows	183,821	183,821	0
Long-Term Liabilities	1,158,684	1,158,684	0
Net Position, June 30, 2015 as restated	<u>\$963,871</u>	<u>\$963,871</u>	<u>\$868,808</u>

NOTE 3 - COMPLIANCE

Financial Reporting - Ohio Administrative Code, Section 117-2-03 (B), requires the District to prepare its annual financial report in accordance with generally accepted accounting principles. However, the District prepared its financial statements on a modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying financial statements omit assets, liabilities, net position /fund balances, and disclosures that, while material, cannot be determined at this time. The District can be fined and various other administrative remedies may be taken against the District.

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MARION CITY SCHOOL DISTRICT, OHIO

***Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016***

NOTE 4 – 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:			
Endowments	\$0	\$2,226	\$2,226
Restricted:			
School Facilities Maintenance	0	930,223	930,223
Extracurricular Activities	0	406,542	406,542
Technology Improvements	0	1,890	1,890
Auxiliary Services	0	32,044	32,044
Targeted Academic Assistance	0	813,739	813,739
Debt Service Payments	0	829,280	829,280
Capital Acquisition and Improvement	0	1,090,183	1,090,183
Total Restricted	<u>0</u>	<u>4,103,901</u>	<u>4,103,901</u>
Assigned to Other Purposes	1,728,348	0	1,728,348
Unassigned	7,629,407	0	7,629,407
Total Fund Balances	<u><u>\$9,357,755</u></u>	<u><u>\$4,106,127</u></u>	<u><u>\$13,463,882</u></u>

MARION CITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2016

NOTE 5 – CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash resources of several individual funds are combined to form a pool of cash, cash equivalents and investments.

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).

MARION CITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2016

NOTE 5 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

A. Deposits

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

At fiscal year end the carrying amount of the District's deposits was \$16,046,218 and the bank balance was \$16,391,735. Federal depository insurance covered \$4,347,256 of the bank balance and \$12,044,479 was collateralized in accordance with Ohio Revised Code. 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, 2016 were as follows:

	Fair Value	Credit Rating	Investment Maturities (in Years)		
			less than 1	1-3	3-5
STAR Ohio	\$22,054	AAA ¹	\$22,054	\$0	\$0

¹ Standard & Poor's

The School District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs. Level 3 inputs are significant unobservable inputs. The above tables identify the School District's recurring fair value measurement as of June 30, 2016. As previously discussed Star Ohio is reported at its net asset value. All other investments of the School District are valued using quoted market prices (Level 1 inputs).

MARION CITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2016

NOTE 5 - 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, 100% are STAR Ohio.

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.

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MARION CITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2016

NOTE 6 - PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis while the District fiscal year runs from July through June. First half 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 2016 were levied after April 1, 2015 on assessed values as of January 1, 2015, 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 2014. 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 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 2016 were as follows:

	2015 Second Half Collections	2016 First Half Collections
Agricultural/Residential and Other Real Estate	\$309,637,600	\$308,113,290
Public Utility Personal	31,918,500	34,981,570
Total Assessed Value	<u>\$341,556,100</u>	<u>\$343,094,860</u>
Tax rate per \$1,000 of assessed valuation	\$41.22	\$41.12

MARION CITY SCHOOL DISTRICT, OHIO

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016**

NOTE 7 - INTERFUND ACTIVITY

A. Transfers

Following is a summary of operating transfers in and out for all funds for fiscal year 2016:

Fund	Transfers In	Transfers Out
General Fund	\$0	\$1,450,000
Nonmajor Governmental Funds	1,450,000	0
Total All Funds	<u>\$1,450,000</u>	<u>\$1,450,000</u>

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.

B. Advances

Following is a summary of advances in and out for all funds at June 30, 2016:

	Advances In	Advances Out
General Fund	\$0	\$1,200,245
Nonmajor Governmental Funds	1,015,427	0
Total Governmental Funds	<u>1,015,427</u>	<u>1,200,245</u>
Food Service Fund	166,068	0
Nonmajor Enterprise Fund	18,750	0
Total Enterprise Funds	<u>184,818</u>	<u>0</u>
Totals	<u>\$1,200,245</u>	<u>\$1,200,245</u>

Advances are used to temporarily provide operating resources to funds with the expectation the resources will be repaid once monies are available in the funds receiving the advance.

NOTE 8 - 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.

Net Pension Liability - The net pension liability is not reported in the accompanying financial statements. The net pension liability has been disclosed below. Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period.

MARION CITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2016

NOTE 8 - DEFINED BENEFIT PENSION PLANS (Continued)

The net pension liability represents the District's proportionate share of each pension plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan's fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

The Ohio Revised Code limits the District's obligation for this liability to annually required payments. The District cannot control benefit terms or the manner in which pensions are financed; however, the District does receive the benefit of employees' services in exchange for compensation including pension.

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's share of contributions to the pension plan relative to the projected contributions of all participating entities. Following is information related to the proportionate share:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportionate Share of the Net Pension Liability	\$11,306,888	\$58,439,289	\$69,746,177
Proportion of the Net Pension Liability	0.198155%	0.211453%	

A. School Employee Retirement System

Plan Description – School District non-teaching employees participate in SERS, a cost-sharing multiple-employer defined benefit pension plan administered by SERS. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements, required supplementary information and detailed information about SERS' fiduciary net position. That report can be obtained by visiting the SERS website at www.ohsers.org under Employers/Audit Resources.

MARION CITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2016

NOTE 8 - DEFINED BENEFIT PENSION PLANS (Continued)

A. School Employee Retirement System (Continued)

Age and service requirements for retirement are as follows:

	Eligible to Retire on or before August 1, 2017 *	Eligible to Retire on or after August 1, 2017
Full Benefits	Any age with 30 years of service credit	Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit
Actuarially Reduced Benefits	Age 60 with 5 years of service credit Age 55 with 25 years of service credit	Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit

* Members with 25 years of service credit as of August 1, 2017, will be included in this plan.

Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on year of service; 2.2 percent for the first thirty years of service and 2.5 percent for years of service credit over 30. Final average salary is the average of the highest three years of salary.

One year after an effective benefit date, a benefit recipient is entitled to a three percent cost-of-living adjustment (COLA). This same COLA is added each year to the base benefit amount on the anniversary date of the benefit.

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the School 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, 2016, the allocation to pension, death benefits, and Medicare B was 14.00 percent. None of the 14 percent employer contribution rate was allocated to the Health Care Fund.

The District's contractually required contribution to SERS was \$978,864 for fiscal year 2016.

Actuarial Assumptions - SERS' total pension liability was determined by their actuaries in accordance with GASB Statement No. 67, as part of their annual actuarial valuation for each defined benefit retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment termination). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

MARION CITY SCHOOL DISTRICT, OHIO

***Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016***

NOTE 8 - DEFINED BENEFIT PENSION PLANS (Continued)

A. School Employee Retirement System (Continued)

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee's entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2015, are presented below:

Wage Inflation	3.25 percent
Future Salary Increases, including inflation	4.00 percent to 22 percent
COLA or Ad Hoc COLA	3 percent
Investment Rate of Return	7.75 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal

For post-retirement mortality, the table used in evaluating allowances to be paid is the 1994 Group Annuity Mortality Table set back one year for both men and women. Special mortality tables are used for the period after disability retirement.

The most recent experience study was completed June 30, 2010.

The long-term return expectation for the Pension Plan Investments has been determined using a building-block approach and assumes a time horizon, as defined in SERS' *Statement of Investment Policy*. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes. The target allocation and best estimates of arithmetic real rates of return for each major assets class are summarized in the following table:

MARION CITY SCHOOL DISTRICT, OHIO

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016*

NOTE 8 - DEFINED BENEFIT PENSION PLANS (Continued)

A. School Employee Retirement System (Continued)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
Cash	1.00 %	0.00 %
US Stocks	22.50	5.00
Non-US Stocks	22.50	5.50
Fixed Income	19.00	1.50
Private Equity	10.00	10.00
Real Assets	10.00	5.00
Multi-Asset Strategies	15.00	7.50
Total	<u>100.00 %</u>	

Discount Rate - The total pension liability was calculated using the discount rate of 7.75 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.75 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.75 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.75 percent), or one percentage point higher (8.75 percent) than the current rate.

	1% Decrease <u>6.75%</u>	Current Discount Rate <u>7.75%</u>	1% Increase <u>8.75%</u>
School District's proportionate share of the net pension liability	\$15,678,590	\$11,306,888	\$7,625,554

B. State Teachers Retirement System

Plan Description –District licensed teachers and other faculty members participate in STRS Ohio, a cost-sharing multiple-employer public employee retirement system administered by STRS. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about STRS' fiduciary net position. That report can be obtained by writing to STRS, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Web site at www.strsoh.org.

MARION CITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2016

NOTE 8 - 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. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with five year of qualifying service credit, or age 55 with 25 years of service, or 30 years of service regardless of age. Age and service requirements for retirement will increase effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five year of service on August 1, 2026.

The DC Plan allows members to place all their member contributions and 9.5 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. 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 DB Plan and the DC Plan. In the Combined Plan, member contributions are allocated among investment choices by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of services. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50.

New members who choose the DC plan or Combined Plan will have another opportunity to reselect a permanent plan during their fifth year of membership. Members may remain in the same plan or transfer to another STRS plan. The optional annuitization of a member's defined contribution account or the defined contribution portion of a member's Combined Plan account to a lifetime benefit results in STRS bearing the risk of investment gain or loss on the account. STRS has therefore included all three plan options as one defined benefit plan for GASB 68 reporting purposes.

A DB or Combined Plan member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least ten years of qualifying service credit that apply for disability 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.

MARION CITY SCHOOL DISTRICT, OHIO

***Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016***

NOTE 8 - DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System (Continued)

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory maximum employee contribution rate was increased one percent July 1, 2015, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2016, plan members were required to contribute 13 percent of their annual covered salary. The MCDA was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2016 contribution rates were equal to the statutory maximum rates.

The District's contractually required contribution to STRS was \$3,291,756 for fiscal year 2016.

Actuarial Assumptions - The total pension liability in the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75 percent
Projected salary increases	2.75 percent at age 70 to 12.25 percent at age 20
Investment Rate of Return	7.75 percent, net of investment expenses
Cost-of-Living Adjustments (COLA)	2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, 2013, or later, 2 percent COLA paid on fifth anniversary of retirement date.

Mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males' ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89 and not set back from age 90 and above.

Actuarial assumptions used in the June 30, 2015, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

The 10 year expected real rate of return on pension plan investments was determined by STRS' investment consultant by developing best estimates of expected future real rates of return for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized as follows:

MARION CITY SCHOOL DISTRICT, OHIO

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016**

NOTE 8 - DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System (Continued)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
Domestic Equity	31.00 %	8.00 %
International Equity	26.00	7.85
Alternatives	14.00	8.00
Fixed Income	18.00	3.75
Real Estate	10.00	6.75
Liquidity Reserves	1.00	3.00
Total	<u>100.00 %</u>	

Discount Rate - The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2015. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2015. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2015.

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following table presents the District's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.75 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.75 percent) or one-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease 6.75%	Current Discount Rate 7.75%	1% Increase 8.75%
District's proportionate share of the net pension liability	\$81,176,581	\$58,439,289	\$39,211,519

MARION CITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2016

NOTE 9 - POSTEMPLOYMENT BENEFITS

A. School Employee Retirement System

Plan Description – The District contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 45 purposes, this plan is considered a cost-sharing, multiple-employer, defined benefit other postemployment benefit (OPEB) 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 financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Health care is financed through a combination of employer contributions and retiree premiums, copays and deductibles on covered health care expenses, investment returns, and any funds received as a result of SERS' participation in Medicare programs. 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.

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 2016, no percentage of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount (\$23,000 for 2016), pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge.

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, 2016, 2015, and 2014 were \$0, \$39,473, and \$92,378 respectively; which were equal to the required contributions for each year.

MARION CITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2016

NOTE 9 - POSTEMPLOYMENT BENEFITS (Continued)

A. School Employee Retirement System (Continued)

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2016, 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, 2016, 2015, and 2014 were \$51,782, \$35,634, and \$46,843 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.

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 2016, STRS Ohio allocated employer contributions equal to zero percent of covered payroll to the Health Care Stabilization Fund. The District's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$0, \$0, and \$80,879 respectively; which were equal to the required contributions for each year.

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MARION CITY SCHOOL DISTRICT, OHIO

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016**

NOTE 10 - LONG-TERM DEBT OBLIGATIONS

Detail of the changes in long-term debt of the District for the year ended June 30, 2016 is as follows:

	Balance June 30, 2015	Additions	Deductions	Balance June 30, 2016	Amount Due Within One Year
Governmental Activities:					
General Obligation Bond:					
2007 School Facilities Construction					
Serial Bonds 4.0-5.0%	\$6,400,000	\$0	\$0	\$6,400,000	\$0
Capital Appreciation Bonds	805,000	0	(420,000)	385,000	385,000
Accretion on Capital					
Appreciation Bonds	954,371	176,429	0	1,130,800	0
Bond Premium	527,807	0	(12,819)	514,988	0
Total General Obligation Bonds	<u>8,687,178</u>	<u>176,429</u>	<u>(432,819)</u>	<u>8,430,788</u>	<u>385,000</u>
General Obligation Notes:					
Energy Conservation 3.00%	1,521,501	0	(108,893)	1,412,608	112,160
Energy Conservation 3.25%	531,665	0	(30,590)	501,075	31,585
Total General Obligation Notes	<u>2,053,166</u>	<u>0</u>	<u>(139,483)</u>	<u>1,913,683</u>	<u>143,745</u>
Capital Leases Payable	164,145	0	(56,974)	107,171	67,979
Total Governmental Activities	<u>10,904,489</u>	<u>176,429</u>	<u>(629,276)</u>	<u>10,451,642</u>	<u>596,724</u>
Total Long-Term Debt and Other Obligations	<u>\$10,904,489</u>	<u>\$176,429</u>	<u>(\$629,276)</u>	<u>\$10,451,642</u>	<u>\$596,724</u>

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MARION CITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2016

NOTE 10 - 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, 2016, in the amount of \$960,000. For fiscal year 2016, \$176,429 was accreted on the capital appreciation bonds for a total bond value of \$1,515,800 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.

2014 Energy Conservation Notes – On September 8, 2013, the School District issued notes in the amount of \$557,735, 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 3.25%. The notes are set to mature on December 1, 2028.

The District's overall debt margin was \$23,309,238 with an unvoted debt margin of \$343,095 at June 30, 2016.

MARION CITY SCHOOL DISTRICT, OHIO

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016**

NOTE 10 - LONG-TERM DEBT 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, 2016 follows:

Years	Principal	General Obligation Bonds		Total
		Capital Appreciation	Interest	
2017	\$0	\$385,000	\$840,600	\$1,225,600
2018	960,000	0	241,600	1,201,600
2019	1,000,000	0	241,600	1,241,600
2020	1,045,000	0	197,600	1,242,600
2021	1,090,000	0	156,700	1,246,700
2022-2023	2,305,000	0	207,100	2,512,100
Totals	\$6,400,000	\$385,000	\$1,885,200	\$8,670,200

Years	General Obligation Notes		
	Principal	Interest	Total
2017	\$143,745	\$59,380	\$203,125
2018	146,147	54,988	201,135
2019	150,672	50,464	201,136
2020	155,337	45,800	201,137
2021	160,144	40,992	201,136
2022-2026	874,135	127,552	1,001,687
2027-2029	283,503	13,374	296,877
Totals	\$1,913,683	\$392,550	\$2,306,233

MARION CITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2016

NOTE 11 - CAPITAL LEASES

The District has entered into capitalized leases for equipment in the amount of \$273,762 as of June 30, 2016. Each lease meets the criteria of a capital lease, 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 2016 were \$56,974.

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, 2016:

<u>Year Ending June 30,</u>	<u>Capital Lease</u>
2017	\$83,083
2018	41,542
Minimum Lease Payments	124,625
Less amount representing interest at the District's incremental borrowing rate of interest	<u>(17,454)</u>
Present value of minimum lease payments	<u><u>\$107,171</u></u>

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MARION CITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2016

NOTE 12 - 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 2016, the School District contracted for the following insurance coverage:

Type of Coverage	Coverage
Buildings and Contents – replacement cost	\$180,196,287
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.

The Administrative Services - Employee Benefit Self-Insurance Fund, an internal service fund, is used to account for, and finance self-insurance activities. This fund includes prescription drug, dental and health insurance benefits.

MARION CITY SCHOOL DISTRICT, OHIO

***Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016***

NOTE 13 – 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, 2016, the reserve activity (cash-basis) was as follows:

	Capital Maintenance
Set-aside Balance as of June 30, 2015	\$0
Current Year Set-Aside Requirement	719,528
Current Year Offset Credits	(719,528)
Qualifying Disbursements	0
Total	<u>\$0</u>
Set-aside Balance Carried Forward to FY 2017	<u>\$0</u>

NOTE 14 – JOINTLY GOVERNED ORGANIZATIONS

A. Metropolitan Educational Technology Association

The District is a participant in the Metropolitan Educational Technology Association (META), which is a computer consortium. META 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 META 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 2016, the District paid \$210,370 to META for various services. Financial information can be obtained from META, 100 Executive Drive, Marion, Ohio 43302.

MARION CITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2016

NOTE 14 – 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 15 – 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 16 – DONOR RESTRICTED ENDOWMENTS

The School District's private purpose trust fund includes donor restricted endowments. Endowments, in the amount of \$100,067 represent the principal portion. The amount of net appreciation in donor restricted investments that is available for expenditures by the School District is \$6,765 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, 2016

NOTE 17 - 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, 2016.

B. Litigation

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

C. School Funding

District Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for the 2014-2015 school year, traditional Districts must comply with minimum hours of instruction, instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the District, which can extend past the fiscal year-end. As of the date of this report, ODE has not finalized the impact of enrollment adjustments to the June 30, 2016 Foundation funding for the District; therefore, the financial statement impact is not determinable at this time. ODE and management believe this will result in either a receivable to or liability of the District.

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MARION CITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2016

NOTE 18 – MARION CITY DIGITAL ACADEMY

A. Basis of Presentation

Marion City Digital Academy uses a cash basis of accounting. This cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting.

B. Deposits

At year end the carrying amount of MCDA's deposits was of \$690,912 and the bank balance was \$697,675. The Federal Deposit Insurance Corporation (FDIC) covered \$250,000 of the bank balance. The remaining \$447,675 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. Related Party Transaction

In fiscal year 2016, the Marion City School District received \$678,705 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.

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MARION CITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2016

NOTE 19 – RUSHMORE ACADEMY

A. Basis of Presentation

Rushmore Academy uses a cash basis of accounting. This cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting.

B. Deposits

At year end the carrying amount of the Academy's deposits was of \$1,145,237 and the bank balance was \$1,164,373. The Federal Deposit Insurance Corporation (FDIC) covered \$250,000 of the bank balance. The remaining \$914,373 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. Related Party Transaction

In fiscal year 2016, the Marion City School District received \$1,569,493 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, OHIO

SUPPLEMENTAL INFORMATION

MARION CITY SCHOOL DISTRICT, OHIO

***Schedule of District's Proportionate Share of the Net Pension Liability
Last Three Fiscal Years***

State Teachers Retirement System

Fiscal Year	2013	2014	2015
District's proportion of the net pension liability (asset)	0.20697648%	0.20697648%	0.21145251%
District's proportionate share of the net pension liability (asset)	\$59,969,256	\$50,343,843	\$58,439,289
District's covered-employee payroll	\$21,077,538	\$20,681,315	\$21,169,200
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	284.52%	243.43%	276.06%
Plan fiduciary net position as a percentage of the total pension liability	69.30%	74.70%	72.10%

Source: District Treasurer's Office and State Teachers Retirement System

School Employees Retirement System

Fiscal Year	2013	2014	2015
District's proportion of the net pension liability (asset)	0.174691%	0.174691%	0.198155%
District's proportionate share of the net pension liability (asset)	\$10,388,313	\$8,841,012	\$11,306,888
District's covered-employee payroll	\$4,522,296	\$5,104,978	\$5,110,835
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	229.71%	173.18%	221.23%
Plan fiduciary net position as a percentage of the total pension liability	65.52%	71.70%	69.16%

Source: District Treasurer's Office and School Employees Retirement System

Notes: The District implemented GASB Statement 68 in 2015.

Information prior to 2013 is not available.

The schedule is reported as of the measurement date of the Net Pension Liability.

MARION CITY SCHOOL DISTRICT, OHIO

Schedule of District Contributions Last Three Fiscal Years

State Teachers Retirement System

Fiscal Year	<u>2014</u>	<u>2015</u>	<u>2016</u>
Contractually required contribution	\$2,688,571	\$2,963,688	\$3,291,756
Contributions in relation to the contractually required contribution	<u>2,688,571</u>	<u>2,963,688</u>	<u>3,291,756</u>
Contribution deficiency (excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
District's covered-employee payroll	\$20,681,315	\$21,169,200	\$23,512,543
Contributions as a percentage of covered-employee payroll	13.00%	14.00%	14.00%

Source: District Treasurer's Office and State Teachers Retirement System

School Employees Retirement System

Fiscal Year	<u>2014</u>	<u>2015</u>	<u>2016</u>
Contractually required contribution	\$707,550	\$673,608	\$978,864
Contributions in relation to the contractually required contribution	<u>707,550</u>	<u>673,608</u>	<u>978,864</u>
Contribution deficiency (excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
District's covered-employee payroll	\$5,104,978	\$5,110,835	\$6,991,886
Contributions as a percentage of covered-employee payroll	13.86%	13.18%	14.00%

Source: District Treasurer's Office and School Employees Retirement System

Notes: The District implemented GASB Statement 68 in 2015.

Information prior to 2014 is not available.

**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016**

Federal Grantor/ <i>Pass Through Grantor/</i> Program Title	Grant Year	Pass Through Entity Identifying Number	Federal CFDA Number	Expenditures
U.S. DEPARTMENT OF AGRICULTURE				
<i>Passed Through Ohio Department of Education</i>				
<i>Child Nutrition Cluster:</i>				
<i>Non-Cash Assistance (Food Distribution):</i>				
National School Lunch Program	2016	N/A	10.555	\$ 232,681
<i>Cash Assistance:</i>				
Federal Lunch	2016	N/A	10.555	1,822,824
Federal Breakfast	2016	N/A	10.553	875,713
Federal Supper Program	2014	N/A	10.558	37,282
Federal Summer Foods	2014	N/A	10.559	268,991
Cash Assistance Subtotal				<u>3,004,810</u>
Total Child Nutrition Cluster				3,237,491
Federal Fruits and Vegetables	2013	N/A	10.582	116,037
Farm to School	2014	N/A	10.574	5,000
Advance Career Tech	2016	N/A	10.579	<u>10,000</u>
TOTAL U.S. DEPARTMENT OF AGRICULTURE				3,368,528
U.S. DEPARTMENT OF EDUCATION				
<i>Passed through Ohio Department of Education</i>				
<i>Title I Grants to Local Education Agencies</i>				
Title I - FY15	2015	N/A	84.010	366,644
Title I - FY16	2016	N/A	84.010	<u>1,886,709</u>
Total Title I Grants to Local Education Agencies				2,253,353
<i>Special Education Cluster</i>				
Special Education_Grants to States	2015	N/A	84.027	1,020,529
Special Education_Preschool Grants	2016	N/A	84.173	<u>56,405</u>
Total Special Education Cluster				<u>1,076,934</u>
<i>Twenty-first Century Community Learning Centers</i>				
21st Century	2015	N/A	84.287	86,747
21st Century	2016	N/A	84.287	<u>526,988</u>
Total Twenty-first Century Community Learning Centers				<u>613,735</u>
<i>Improving Teacher Quality State Grants</i>				
Improving Teacher Quality	2015	N/A	84.367	23,040
Improving Teacher Quality	2016	N/A	84.367	<u>307,149</u>
Total Improving Teacher Quality State Grants				<u>330,189</u>
McKinney Vento	2016	N/A	84.196	24,870
<i>Race to the Top</i>				
Race to the Top	2015	N/A	84.395	195
Race to the Top	2014	N/A	84.395	<u>14,412</u>
Total Race to the Top				<u>14,607</u>
TOTAL U.S. DEPARTMENT OF EDUCATION				4,313,688
TOTAL U.S. DEPARTMENT OF JUSTICE				
<i>Passed through Ohio Department of Education</i>				
Marion Mentors	2016	N/A	16.738	<u>1,605</u>
TOTAL U.S. DEPARTMENT OF JUSTICE				1,605
TOTAL FEDERAL AWARDS EXPENDITURES				<u><u>\$ 7,683,821</u></u>

The accompanying notes are an integral part of this schedule.

**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
2 CFR 200.510(b)(6)
FOR THE YEAR ENDED June 30, 2016**

NOTE A – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of Marion City School District's (District) under programs of the federal government for the year ended June 30, 2016. The information on this Schedule is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net position, or cash flows of the District

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles contained in OMB Circular A-87 *Cost Principles for State, Local, and Indian Tribal Governments* (codified in 2 CFR Part 225), or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures may or may not be allowable or may be limited as to reimbursement. The District has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE C - 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 D – FOOD DONATION PROGRAM

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

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Charles E. Harris & Associates, Inc.
Certified Public Accountants

**INDEPENDENT AUDITORS' 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 Drive, 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 (the District) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 15, 2016, , wherein we noted the District uses a special purpose framework other than generally accepted accounting principles.

Internal Controls 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 opinion 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 misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, 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 an instance of noncompliance or other matter we must report under *Government Auditing Standards*, which is described in the accompanying schedule of findings as item 2016-001.

Entity's Response to Finding

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

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.



Charles E. Harris & Associates, Inc.
December 15, 2016

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Charles E. Harris & Associates, Inc.
Certified Public Accountants

INDEPENDENT ACCOUNTANT'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Marion City School District
Marion County
420 Presidential Drive, 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 ("District") compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could directly and materially affect each of the District's major federal programs for the year ended June 30, 2016. The *Summary of Auditor's 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 federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). These standards and the Uniform Guidance 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 each of the District's major programs. However, our audit does not provide a legal determination of the District's compliance.

The District's basic financial statements include the operations of the Marion City Digital Academy and Rushmore Academy, component units of the Marion City School District, which received \$154,498 and \$344,367, respectively in federal awards which is not included in the District's Schedule of Expenditures of Federal Awards for the year ended June 30, 2016. Our audit of federal awards, described below, did not include the operations of the Marion City Digital Academy and Rushmore Academy. Because Marion City Digital Academy and Rushmore Academy are legally separate and expended less than \$750,000 of federal awards for the fiscal year ended June 30, 2016, they were not subject to Uniform Guidance.

Opinion on Each Major Federal Program

In our opinion, the Marion City School 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, 2016.

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 the Uniform Guidance, 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.

Marion City School District
Marion County
Independent Accountants' Report on Compliance with Requirements
Applicable to Each Major Federal Program and on Internal Control
Over Compliance Required by the Uniform Guidance
Page 3

This report only describes the scope of our internal control over compliance tests and the results of this testing based on Uniform Guidance requirements. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink that reads "Charles E. Harris" followed by "Associates" in a cursive script.

Charles E. Harris & Associates, Inc.
December 15, 2016

**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

**SCHEDULE OF FINDINGS
2 CFR § 200.515
June 30, 2016**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	<i>Type of Financial Statement Opinion</i>	Unmodified
(d)(1)(ii)	<i>Were there any material control weaknesses reported at the financial statement level (GAGAS)?</i>	No
(d)(1)(ii)	<i>Were there any significant deficiencies reported at the financial statement level (GAGAS)?</i>	No
(d)(1)(iii)	<i>Was there any reported material non-compliance at the financial statement level (GAGAS)?</i>	Yes
(d)(1)(iv)	<i>Were there any material internal control weaknesses reported for major federal programs?</i>	No
(d)(1)(iv)	<i>Were there any significant deficiencies reported for major federal programs?</i>	No
(d)(1)(v)	<i>Type of Major Programs' Compliance Opinion</i>	Unmodified
(d)(1)(vi)	<i>Are there any reportable findings under 2 CFR § 200.516(a)</i>	No
(d)(1)(vii)	<i>Major Programs:</i>	Nutrition Cluster – CFDA# 10.553, 10.555, 10.559 Title I Grants to Local Educational Agencies: CFDA #84.010
(d)(1)(viii)	<i>Dollar Threshold: Type A\B Programs</i>	Type A: >\$750,000 Type B: All Others
(d)(1)(ix)	<i>Low Risk Auditee under 2 CFR § 200.520?</i>	No

**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

**SCHEDULE OF FINDINGS – (continued)
2 CFR § 200.515
JUNE 30, 2016**

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

**FINDING NUMBER 2016-001
Noncompliance**

Ohio Administrative Code Section 117-2-03 (B) states “All counties, cities and school districts, including educational service centers and community schools, shall file annual financial reports which are prepared using generally accepted accounting principles.”

The District prepared its financial statements on modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. To be in compliance with the Ohio Administrative Code, the District should use generally accepted accounting principles in future annual reports. Not using principles generally accepted in the United States of America makes the District subject to fines and other administrative remedies.

Official’s Response:

See Corrective Action Plan.

3. FINDINGS FOR FEDERAL AWARDS

None

MARION CITY SCHOOL DISTRICT
MARION COUNTY

For the Year Ended June 30, 2016

STATUS OF PRIOR AUDIT'S CITATIONS AND RECOMMENDATIONS

FINDING NUMBER	FUNDING SUMMARY	FULLY CORRECTED?	Not Corrected. Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain
2015-001	Material Noncompliance/Material Weakness – Schedule of Federal Awards Receipts and Expenditures incorrectly combined the National School Lunch Program and the School Breakfast Program.	Yes	District reported both programs separately.

MARION CITY SCHOOL DISTRICT
MARION COUNTY

CORRECTIVE ACTION PLAN
2 CFR § 200.511(c)
June 30, 2016

FINDING NUMBER	PLANNED CORRECTIVE ACTION	ANTICIPATED COMPLETION DATE	RESPONSIBLE CONTACT PERSON
2016-001	The District analyzed the risks and benefits of continuing to convert financials from a cash basis to a GAAP basis. In order to reduce time and costs, a decision was made to present financials following the modified cash basis.	N/A	Veronica Reinhart, Treasurer