



**Auditor of State  
Betty Montgomery**



**MARION CITY SCHOOL DISTRICT  
MARION COUNTY**

**TABLE OF CONTENTS**

| <b>TITLE</b>  | <b>PAGE</b> |
|---|-------------|
| Independent Accountants' Report.....  | 1           |
| General Purpose External Financial Statements:  |             |
| Management's Discussion and Analysis.....   | 3           |
| Basic Financial Statements:   |             |
| Government-Wide Financial Statements:   |             |
| Statement of Net Assets .....   | 9           |
| Statement of Activities.....  | 10          |
| Fund Financial Statements:  |             |
| Balance Sheet – Governmental Funds .....  | 11          |
| Statement of Revenues, Expenditures and Changes<br>in Fund Balances – Governmental Funds.....   | 12          |
| Statement of Revenues, Expenditures, and Change in Fund Balance –<br>Budget (Non-GAAP Basis) and Actual – General Fund .....  | 13          |
| Statement of Net Assets – Proprietary Funds .....   | 14          |
| Statement of Revenues, Expenses, and Changes in Fund<br>Net Assets – Proprietary Funds .....  | 15          |
| Statement of Cash Flows – Proprietary Funds .....   | 16          |
| Statement of Fiduciary Net Assets – Fiduciary Funds.....  | 17          |
| Statement of Changes in Fiduciary Net Assets – Fiduciary Funds .....  | 18          |
| Notes to the Basic Financial Statements .....   | 19          |
| Schedule of Federal Awards Receipts and Expenditures.....   | 49          |
| Notes to the Schedule of Federal Awards Receipts and Expenditures .....   | 50          |
| Independent Accountants' Report on Compliance and on Internal Control<br>Required by <i>Government Auditing Standards</i> .....   | 51          |
| Independent Accountants' Report on Compliance with Requirements<br>Applicable to Each Major Federal Program and Internal Control over<br>Compliance in Accordance with OMB Circular A-133 ..... | 53          |
| Schedule of Findings.....   | 55          |
| Schedule of Prior Audit Findings.....   | 60          |

**THIS PAGE INTENTIONALLY LEFT BLANK**



# Auditor of State Betty Montgomery

## INDEPENDENT ACCOUNTANTS' REPORT

Marion City School District  
Marion County  
910 East Church Street  
Marion, Ohio 43302

To the Board of Education:

We have audited the accompanying basic financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Marion City School District, Marion County, Ohio, (the District) as of and for the year ended June 30, 2003, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Marion City School District, Marion County, Ohio, as of June 30, 2003, the respective changes in financial position and cash flows, where applicable, and the budgetary comparison for the General fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended June 30, 2003, the District implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements- and Management's Discussion and Analysis- for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 23, 2004, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

35 N. Fourth St. / Second Floor / Columbus, OH 43215  
Telephone: (614) 466-3402 (800) 443-9275 Fax: (614) 728-7199  
[www.auditor.state.oh.us](http://www.auditor.state.oh.us)

Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information the Governmental Accounting Standards Board requires. We applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to form opinions on the financial statements that collectively comprise the District's basic financial statements. The federal awards receipts and expenditures schedule is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. We subjected the federal awards receipts and expenditures schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.



**Betty Montgomery**  
Auditor of State

January 23, 2004

**Marion City School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2003*  
*Unaudited*

---

The discussion and analysis of Marion City School District's financial performance provides an overall view of the School District's financial activities for the fiscal year ended June 30, 2003. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School District's financial performance.

**Financial Highlights**

Key financial highlights for 2003 are as follows:

Marion City Schools is currently involved in a \$92,000,000 building project financed 83% by the Ohio School Facilities Commission. The construction on the new high school and three new elementary buildings began in 2001 and is now completed. The reconstruction and renovation of the new middle school and three elementary buildings began in 2003. These projects are expected to be completed, including the demolitions of the old buildings, by November 2004.

**Using this Annual Financial Report**

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

The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances.

Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's most significant funds with all other non-major funds presented in total in a single column. For Marion City School District, the General Fund and Classroom Facilities Fund are the most significant funds.

***Reporting the School District as a Whole***

*Statement of Net Assets and the Statement of Activities*

While this document contains the large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2003?" The *Statement of Net Assets* and the *Statement of Activities* answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

In the *Statement of Net Assets* and the *Statement of Activities*, the School District is divided into two distinct types of activities:

- 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 the expenses of the goods or services provided. The School District adult and community education programs, food service and uniform school supplies are reported as business-type activities.

**Marion City School District**  
*Management's Discussion and Analysis*  
For the Fiscal Year Ended June 30, 2003  
Unaudited

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

*Fund Financial Statements*

Fund financial statements provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the general fund and the classroom facilities capital projects fund.

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

**Proprietary Funds** Proprietary funds use the same basis of accounting as business-type activities.

**The School District as a Whole**

The Statement of Net Assets provides the perspective of the School District as a whole.

Table 1 provides a summary of the School District's net assets for 2003 compared to 2002:

Table 1  
Net Assets  
(In Thousands)

| Asset                                  | Governmental Activities |                  | Business-Type Activities |                 | Total            |                  |
|--|-------------------------|------------------|--------------------------|-----------------|------------------|------------------|
|  | 2002                    | 2003             | 2002                     | 2003            | 2002             | 2003             |
| Current and Other Assets               | \$ 85,504               | \$ 51,820        | \$ 267                   | \$ 179          | \$ 85,771        | \$ 51,999        |
| Capital Assets                         | <u>38,611</u>           | <u>71,405</u>    | <u>51</u>                | <u>53</u>       | <u>38,662</u>    | <u>71,458</u>    |
| Total Assets                           | <u>\$124,115</u>        | <u>\$123,225</u> | <u>\$ 318</u>            | <u>\$ 232</u>   | <u>\$124,433</u> | <u>\$123,457</u> |
| <b>Liabilities</b>                     |                         |                  |                          |                 |                  |                  |
| Current & Other Liabilities            | \$ 17,928               | \$ 18,022        | \$ 173                   | \$ 263          | \$ 18,101        | \$ 18,285        |
| Long-Term Liabilities                  | <u>18,449</u>           | <u>18,306</u>    | <u>167</u>               | <u>86</u>       | <u>18,616</u>    | <u>18,392</u>    |
| Total Liabilities                      | <u>\$ 36,377</u>        | <u>\$ 36,328</u> | <u>\$ 340</u>            | <u>\$ 349</u>   | <u>\$ 36,717</u> | <u>\$ 36,677</u> |
| <b>Net Assets</b>                      |                         |                  |                          |                 |                  |                  |
| Invested in Capital Assets Net of Debt | \$ 23,265               | \$ 56,289        | \$ 51                    | \$ 53           | \$ 23,316        | \$ 56,342        |
| Restricted                             | 62,797                  | 31,004           | -                        | -               | 62,797           | 31,004           |
| Unrestricted (Deficit)                 | <u>1,676</u>            | <u>(396)</u>     | <u>(73)</u>              | <u>(170)</u>    | <u>1,603</u>     | <u>(566)</u>     |
| Total Net Assets                       | <u>\$ 87,738</u>        | <u>\$ 86,897</u> | <u>\$ (22)</u>           | <u>\$ (117)</u> | <u>\$ 87,716</u> | <u>\$ 86,780</u> |

Total assets decreased \$1.0 million. Taxes receivable decreased \$.7 million. The decrease in taxes receivable resulted from a drop in personal property taxes. Net assets of the School district's governmental activities decreased by \$.8 million.



**Marion City School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2003*  
*Unaudited*

The net assets of the School District's business-type activities decreased by \$.1 million. Although the decline was slight, management has reviewed and, where feasible, increased fees. Food service pricing was increased an average of four percent in August 2003. This action helps to ensure that business type activities remain self-supporting.

Table 2 shows the changes in net assets for fiscal year 2003. Since this is the first year the School District has prepared financial statements following GASB Statement 34, revenue and expense comparisons to fiscal year 2002 are not available.

Table 2  
Changes in Net Assets  
(In Thousands)

|  | Governmental<br>Activities<br><u>2003</u> | Business-Type<br>Activities<br><u>2003</u> | Total<br><u>2003</u> |
|--|---|--|----------------------|
| <b>Revenue</b>   |   |  |                      |
| Program Revenues:  |   |  |                      |
| Charges for Services                                       | \$ 1,753                                  | \$ 750                                     | \$ 2,503             |
| Operating Grants   | 3,699                                     | 1,159                                      | 4,858                |
| Capital Grants   | 703                                       | -  | 703                  |
| General Revenue:   |   |  |                      |
| Property Taxes   | 12,068                                    | -  | 12,068               |
| Grants and Entitlements                                    | 27,101                                    | -  | 27,101               |
| Other  | <u>509</u>                                | <u>1</u>                                   | <u>510</u>           |
| Total Revenues   | <u>45,833</u>                             | <u>1,910</u>                               | <u>47,743</u>        |
| <b>Program Expenses</b>                                    |   |  |                      |
| Instruction  | \$ 31,164                                 | \$ -                                       | \$ 31,164            |
| Support Services:  |   |  |                      |
| Pupil and Instructional Staff                              | 3,997                                     | -  | 3,997                |
| Board of Education, Administration, Fiscal<br>and Business | 5,010                                     | -  | 5,010                |
| Operation and Maintenance of Plant                         | 3,616                                     | -  | 3,616                |
| Pupil Transportation                                       | 824                                       | -  | 824                  |
| Operation of Non-Instructional Services                    | 388                                       | -  | 388                  |
| Extracurricular Activities                                 | 673                                       | -  | 673                  |
| Facilities Acquisition & Construction Services             | 70  | -  | 70                   |
| Interest and Fiscal Charges                                | 835                                       | -  | 835                  |
| Food Service   | -   | 2,037                                      | 2,037                |
| Uniform School Supplies                                    | -   | 11   | 11                   |
| Adult Education  | <u>-</u>                                  | <u>54</u>                                  | <u>54</u>            |
| Total Expenses   | <u>46,577</u>                             | <u>2,102</u>                               | <u>48,679</u>        |
| Deficiency Before Transfers                                | (744)                                     | (192)                                      | (936)                |
| Transfers  | <u>(97)</u>                               | <u>97</u>                                  | <u>0</u>             |
| Decrease in Net Assets                                     | <u>\$ (841)</u>                           | <u>\$ (95)</u>                             | <u>\$ (936)</u>      |

**Governmental Activities**

Planned reductions for 2004 were primarily staff reductions. All of these reductions were done through a committee process involving all collective bargaining groups.

Management is placing a 10.0 mill levy on the March 2004 ballot. Management plans to carefully control expenses during the coming years to continue to assure tax levy revenues are prudently managed.

**Marion City School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2003*  
*Unaudited*

The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. The overall revenue generated by the levy will not increase solely as a result of inflation. As an example, a homeowner with a home valued at \$100,000 and taxed at 1.0 mill would pay \$35.00 annually in taxes. If three years later the home were reappraised and increased to \$200,000 (and this inflationary increase in value is still comparable to other property owners) the effective tax rate would become .5 mills and the owner would still pay \$35.00.

Thus school districts dependent upon property taxes are hampered by a lack of revenue growth and must regularly return to the voters to maintain a constant level of service. Property taxes made up 26 percent of revenues for governmental activities for the School District in fiscal year 2003.

Instruction comprises 67 percent of governmental program expenses. Interest and fiscal charges, which are attributable to the outstanding bond and borrowing for capital projects, comprise 1.8 percent.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows the total cost of services and the net cost of services for governmental activities. That is, it identifies the cost of these services supported by tax revenue, unrestricted state entitlements, and other general revenues. Comparisons to 2002 have not been made due to this being the first year of GASB 34 and 2002 data therefore being unavailable.

Table 3  
 Governmental Activities  
 (In Thousands)

|  | Total Cost of<br>Services<br>2003 | Net Cost of<br>Services<br>2003 |
|--|-----------------------------------|---------------------------------|
| Instruction  | \$ 31,164                         | \$ 26,755                       |
| Support Services:  |                                   |                                 |
| Pupil and Instructional Staff                              | 3,997                             | 3,310                           |
| Board of Education, Administration, Fiscal<br>and Business | 5,010                             | 4,829                           |
| Operation and Maintenance of Plant                         | 3,616                             | 3,601                           |
| Pupil transportation                                       | 824                               | 786                             |
| Operation of Non-Instructional Services                    | 388                               | 266                             |
| Extracurricular Activities                                 | 673                               | 673                             |
| Facilities Acquisition and Construction Services           | 70                                | (633)                           |
| Interest and Fiscal Charges                                | 835                               | 835                             |
| Total Expenses   | \$ 46,577                         | \$ 40,422                       |

The dependence upon tax revenues for governmental activities is apparent. Over 85.8 percent of instruction activities are supported through taxes and other general revenues. For all governmental activities, support from general revenues is 86.8 percent. The community, as a whole, is the primary support for Marion City School District students.

***Business-Type Activities***

Business-type activities include the food service operation, the sale of uniform school supplies and adult/community education, which includes preschool and after school programs. These programs had revenues of \$2.0 million and expenses of \$2.1 million for fiscal year 2003. To also ensure that net assets are not further reduced in fiscal 2004, the School District is taking steps to reduce expenses, including renegotiating vendor agreements. Business-type activities receive no support from tax revenues.

**The School District's Funds**

Information about the School District's major funds starts on the fund financial statements. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$67.2 million and expenditures of \$79.7 million. The net change in fund balance for the year was most significant in the General Fund, a decline of \$1.1 million. This decline indicated the School District needed to increase its revenue base to continue meeting School District obligations as a whole.

**Marion City School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2003*  
*Unaudited*

**General Fund Budgeting Highlights**

The School 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 2003 the School District amended its general fund budget numerous times. The School District uses site-based budgeting and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management.

For the general fund, the final budgeted revenue was \$36.6 million, which was not significantly different from the original budget estimates. Much of this conservative estimate was offset as the original appropriations of \$40.5 million were increased to \$41.0 million. Salary cost proved to be higher than anticipated in the original budget.

The School District's ending unobligated cash balance was \$3.2 million above the final budgeted amount.

**Capital Assets and Debt Administration**

**Capital Assets**

At the end of fiscal 2003 the School District had \$71.4 million invested in land, buildings, furniture and equipment, and vehicles. Table 4 shows fiscal 2003 balances compared to 2002:

Table 4  
 Capital Assets at June 30  
 (Net of Depreciation, in Millions)

|                            | <u>Governmental Activities</u> |                | <u>Business-Type Activities</u> |              | <u>Total</u>   |                |
|----------------------------|--------------------------------|----------------|---------------------------------|--------------|----------------|----------------|
|                            | <u>2002</u>                    | <u>2003</u>    | <u>2002</u>                     | <u>2003</u>  | <u>2002</u>    | <u>2003</u>    |
| Land and Improvements      | \$ 6.6                         | \$ 6.6         | \$ -                            | \$ -         | \$ 6.6         | \$ 6.6         |
| Buildings and Improvements | 4.7                            | 55.0           | -                               | -            | 4.7            | 55.0           |
| Furniture and Equipment    | 4.4                            | 5.1            | .1                              | .1           | 4.5            | 5.2            |
| Vehicles                   | .4                             | .3             | -                               | -            | .4             | .3             |
| Construction in Progress   | 22.5                           | 4.4            | -                               | -            | 22.5           | 4.4            |
| Totals                     | <u>\$ 38.6</u>                 | <u>\$ 71.4</u> | <u>\$ .1</u>                    | <u>\$ .1</u> | <u>\$ 38.7</u> | <u>\$ 71.5</u> |

The primary increase occurred in buildings and improvements which include construction projects for the School District.

For fiscal year 2003, Ohio law required school districts to set aside an amount based on a statutory formula for the acquisition and construction of capital improvements and for the purchase of textbooks. For fiscal year 2003, this amounted to \$764,250 for each set aside. For fiscal year 2003 the School District had qualifying disbursements or offsets exceeding these requirements for capital maintenance and had a required set aside, after qualifying, expenditures, of \$429,485 for textbooks.

**Marion City School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2003*  
*Unaudited*

---

**Debt**

At June 30, 2003 the School District had \$15.1 million in bonds and notes outstanding, \$.4 million due within one year. Table 5 summarizes bond and notes outstanding.

Table 5  
 Outstanding Debt, at Year End  
 (In Millions)

|                                       | Governmental<br>Activities<br><u>2003</u> | Governmental<br>Activities<br><u>2002</u> |
|---------------------------------------|---|---|
| General Obligation Bonds:             |   |   |
| 4.4% to 5.36% 2000 School Improvement | \$ 15.00                                  | \$ 15.32                                  |
| Notes Payable:                        |   |   |
| 2.75% to Bus Note                     | .10                                       | -   |
| Compensated Absences                  | 3.19                                      | 2.85                                      |
| Capital Lease Payable                 | <u>.02</u>                                | <u>.03</u>                                |
| Total                                 | <u>\$ 18.31</u>                           | <u>\$ 18.20</u>                           |

At June 30, 2003, the School District's overall legal debt margin was \$18,842,660 with an unvoted debt margin of \$372,221. The School District maintains an AAA bond rating.

**For the Future**

As the preceding information shows, the School District heavily depends on its property taxpayers. However, the financial future is not without challenges.

Management must diligently plan expenses, staying carefully within the School District's five-year plan. Additional revenues must not be treated as a windfall to expand programs, but as an opportunity to extend the time horizon of the five-year plan.

Externally, the State of Ohio was found by the Ohio Supreme Court in March 1997 to be operating an unconstitutional educational system, one that was neither "adequate" nor "equitable." Since 1997, the State has directed its tax revenue growth toward school districts with little property tax wealth.

Both scenarios require management to plan carefully and prudently to provide the resources to meet student needs over the next several years. In addition, the School District's system of budgeting and internal controls is well regarded. All of the School District's financial abilities will be needed to meet the challenges of the future.

**Contacting the School District's Financial Management**

This financial report is designed to provide our citizen's, taxpayers, and investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have questions about this report or need additional information contact Robert L. Wood, Treasurer of Marion City School District, 910 East Church Street, Marion, Ohio 43302, or e-mail at [Bob\\_W@Trecs.Org](mailto:Bob_W@Trecs.Org).

Marion City School District

Statement of Net Assets  
June 30, 2003

|   | Governmental<br>Activities | Business-Type<br>Activities | Total                | Component<br>Unit |
|---|----------------------------|-----------------------------|----------------------|-------------------|
| <b>Assets:</b>                                  |                            |                             |                      |                   |
| Equity in Pooled Cash and Cash Equivalents      | \$11,747,298               | \$217,796                   | \$11,965,094         | \$91,171          |
| Cash and Cash Equivalents                       | 5,414,174                  | 0                           | 5,414,174            | 0                 |
| Cash and Cash Equivalents<br>With Fiscal Agents | 366                        | 0                           | 366                  | 0                 |
| Investments                                     | 10,442,940                 | 0                           | 10,442,940           | 0                 |
| Receivables:                                    |                            |                             |                      |                   |
| Taxes   | 12,864,729                 | 0                           | 12,864,729           | 0                 |
| Accounts  | 19,101                     | 1,090                       | 20,191               | 0                 |
| Intergovernmental                               | 10,826,961                 | 0                           | 10,826,961           | 105,000           |
| Internal Balances                               | 131,282                    | (131,282)                   | 0                    | 0                 |
| Prepaid Items                                   | 86,559                     | 0                           | 86,559               | 0                 |
| Material and Supplies Inventory                 | 286,307                    | 91,618                      | 377,925              | 0                 |
| Non-Depreciable Capital Assets                  | 11,001,053                 | 0                           | 11,001,053           | 0                 |
| Depreciable Capital Assets, Net                 | 60,404,188                 | 53,097                      | 60,457,285           | 0                 |
| <b>Total Assets</b>                             | <b>\$123,224,958</b>       | <b>\$232,319</b>            | <b>\$123,457,277</b> | <b>\$196,171</b>  |
| <b>Liabilities:</b>                             |                            |                             |                      |                   |
| Accounts Payable                                | \$336,520                  | \$15,660                    | \$352,180            | 0                 |
| Contracts Payable                               | 3,143,132                  | 0                           | 3,143,132            | 0                 |
| Accrued Wages and Benefits                      | 4,852,192                  | 144,934                     | 4,997,126            | 0                 |
| Retainage Payable                               | 1,181,495                  | 0                           | 1,181,495            | 0                 |
| Pension Obligation Payable                      | 916,086                    | 102,622                     | 1,018,708            | 0                 |
| Due to Other Governments                        | 0                          | 0                           | 0                    | 108,366           |
| Deferred Revenue-Property Taxes                 | 7,522,751                  | 0                           | 7,522,751            | 0                 |
| Matured Interest Payable                        | 366                        | 0                           | 366                  | 0                 |
| Accrued Interest Payable                        | 69,112                     | 0                           | 69,112               | 0                 |
| Long-Term Liabilities:                          |                            |                             |                      |                   |
| Due within one year                             | 881,956                    | 7,106                       | 889,062              | 0                 |
| Due in more than one year                       | 17,424,007                 | 78,876                      | 17,502,883           | 0                 |
| <b>Total Liabilities</b>                        | <b>\$36,327,617</b>        | <b>\$349,198</b>            | <b>\$36,676,815</b>  | <b>\$108,366</b>  |
| <b>Net Assets:</b>                              |                            |                             |                      |                   |
| Invested in Capital Assets, Net of Related Debt | \$56,288,753               | \$53,097                    | \$56,341,850         | 0                 |
| Restricted for:                                 |                            |                             |                      |                   |
| Capital Projects                                | 28,609,098                 | 0                           | 28,609,098           | 0                 |
| Debt Service                                    | 882,903                    | 0                           | 882,903              | 0                 |
| Other Purposes                                  | 1,512,558                  | 0                           | 1,512,558            | 0                 |
| Unrestricted (Deficit)                          | (395,971)                  | (169,976)                   | (565,947)            | 87,805            |
| <b>Total Net Assets</b>                         | <b>\$86,897,341</b>        | <b>(\$116,879)</b>          | <b>\$86,780,462</b>  | <b>\$87,805</b>   |

See accompanying notes to the basic financial statements.

Marion City School District  
Statement of Activities  
For the Fiscal Year Ended June 30, 2003

| Functions/Programs  | Program Revenues    |                                   |  |  | Net (Expense) Revenue and Changes in Net Assets |                             |                     | Component Unit<br>Marion CSD<br>Digital Academy |
|---|---------------------|-----------------------------------|--|--|---|-----------------------------|---------------------|---|
|   | Expenses            | Charges for<br>Services and Sales | Operating<br>Grants and<br>Contributions | Capital<br>Grants and<br>Contributions | Primary Government                              |                             | Total               |   |
|   |                     |                                   |  |  | Governmental<br>Activities                      | Business-Type<br>Activities |                     |   |
| <b>Primary government:</b>                                  |                     |                                   |  |  |   |                             |                     |   |
| Governmental Activities:                                    |                     |                                   |  |  |   |                             |                     |   |
| Instruction:  |                     |                                   |  |  |   |                             |                     |   |
| Regular   | \$24,134,559        | \$1,639,656                       | \$1,180,684                              | \$0                                    | (\$21,314,219)                                  |                             | (\$21,314,219)      | \$0   |
| Special   | 5,590,257           | 112,821                           | 1,388,108                                | 0                                      | (4,089,328)                                     |                             | (4,089,328)         | 0   |
| Vocational  | 1,077,954           | 0                                 | 8,855                                    | 0                                      | (1,069,099)                                     |                             | (1,069,099)         | 0   |
| Adult/Continuing  | 97,862              | 0                                 | 74,813                                   | 0                                      | (23,049)  |                             | (23,049)            | 0   |
| Other   | 263,097             | 0                                 | 3,507                                    | 0                                      | (259,590)                                       |                             | (259,590)           | 0   |
| Support Services:   |                     |                                   |  |  |   |                             |                     |   |
| Pupils  | 1,980,721           | 0                                 | 90,996                                   | 0                                      | (1,889,725)                                     |                             | (1,889,725)         | 0   |
| Instructional Staff   | 2,016,423           | 0                                 | 596,472                                  | 0                                      | (1,419,951)                                     |                             | (1,419,951)         | 0   |
| Board of Education  | 171,819             | 0                                 | 0  | 0                                      | (171,819)                                       |                             | (171,819)           | 0   |
| Administration  | 3,760,847           | 0                                 | 178,864                                  | 0                                      | (3,581,983)                                     |                             | (3,581,983)         | 0   |
| Fiscal  | 673,155             | 0                                 | 1,263                                    | 0                                      | (671,892)                                       |                             | (671,892)           | 0   |
| Business  | 403,904             | 0                                 | 150                                      | 0                                      | (403,754)                                       |                             | (403,754)           | 0   |
| Operation and Maintenance                                   | 3,615,932           | 0                                 | 15,098                                   | 0                                      | (3,600,834)                                     |                             | (3,600,834)         | 0   |
| Pupil Transportation  | 823,686             | 0                                 | 37,639                                   | 0                                      | (786,047)                                       |                             | (786,047)           | 0   |
| Operation of Non-Instructional Services                     | 388,223             | 0                                 | 122,349                                  | 0                                      | (265,874)                                       |                             | (265,874)           | 0   |
| Extracurricular Activities                                  | 673,157             | 0                                 | 0  | 0                                      | (673,157)                                       |                             | (673,157)           | 0   |
| Facilities Acquisition and Construction Services            | 70,195              | 0                                 | 0  | 703,339                                | 633,144   |                             | 633,144             | 0   |
| Interest and Fiscal Charges                                 | 835,217             | 0                                 | 0  | 0                                      | (835,217)                                       |                             | (835,217)           | 0   |
| Total governmental activities                               | <u>46,577,008</u>   | <u>1,752,477</u>                  | <u>3,698,798</u>                         | <u>703,339</u>                         | <u>(40,422,394)</u>                             |                             | <u>(40,422,394)</u> | <u>0</u>  |
| Business-Type activities:                                   |                     |                                   |  |  |   |                             |                     |   |
| Food Service  | 2,036,866           | 732,542                           | 1,092,168                                | 0                                      | 0   | (212,156)                   | (212,156)           | 0   |
| Uniform School Supplies                                     | 11,173              | 17,365                            | 0  | 0                                      | 0   | 6,192                       | 6,192               | 0   |
| Adult Education   | 53,643              | 0                                 | 66,506                                   | 0                                      | 0   | 12,863                      | 12,863              | 0   |
| Total Business-Type activities                              | <u>2,101,682</u>    | <u>749,907</u>                    | <u>1,158,674</u>                         | <u>0</u>                               | <u>0</u>  | <u>(193,101)</u>            | <u>(193,101)</u>    | <u>0</u>  |
| Total primary government                                    | <u>\$48,678,690</u> | <u>\$2,502,384</u>                | <u>\$4,857,472</u>                       | <u>\$703,339</u>                       | <u>(40,422,394)</u>                             | <u>(193,101)</u>            | <u>(40,615,495)</u> | <u>0</u>  |
| <b>Component Unit:</b>                                      |                     |                                   |  |  |   |                             |                     |   |
| Marion City Schools Digital Academy                         | <u>\$278,542</u>    | <u>\$0</u>                        | <u>\$366,347</u>                         | <u>\$0</u>                             | <u>\$0</u>                                      | <u>\$0</u>                  | <u>\$0</u>          | <u>\$87,805</u>                                 |
| Taxes:  |                     |                                   |  |  |   |                             |                     |   |
| Property taxes, levied for general purposes                 |                     |                                   |  |  | 10,833,273                                      | 0                           | 10,833,273          | 0   |
| Property taxes, levied for special revenue purposes         |                     |                                   |  |  | 146,017   | 0                           | 146,017             | 0   |
| Property taxes, levied for debt service                     |                     |                                   |  |  | 1,088,753                                       | 0                           | 1,088,753           | 0   |
| Grants and Entitlements not Restricted to Specific Purposes |                     |                                   |  |  | 27,101,416                                      | 0                           | 27,101,416          | 0   |
| Unrestricted Investment Earnings                            |                     |                                   |  |  | 293,467   | 0                           | 293,467             | 0   |
| Gain on sale of Capital Assets                              |                     |                                   |  |  | 53,940  | 0                           | 53,940              | 0   |
| Miscellaneous   |                     |                                   |  |  | 161,955   | 1,034                       | 162,989             | 0   |
| Total general revenues                                      |                     |                                   |  |  | <u>39,678,821</u>                               | <u>1,034</u>                | <u>39,679,855</u>   | <u>0</u>  |
| Transfers   |                     |                                   |  |  | <u>(97,132)</u>                                 | <u>97,132</u>               | <u>0</u>            | <u>0</u>  |
| Change in net assets  |                     |                                   |  |  | <u>(840,705)</u>                                | <u>(94,935)</u>             | <u>(935,640)</u>    | <u>87,805</u>                                   |
| Net assets - July 1, 2002 (Restated - See Note 3)           |                     |                                   |  |  | <u>87,738,046</u>                               | <u>(21,944)</u>             | <u>87,716,102</u>   | <u>0</u>  |
| Net assets - June 30, 2003                                  |                     |                                   |  |  | <u>\$86,897,341</u>                             | <u>(\$116,879)</u>          | <u>\$86,780,462</u> | <u>\$87,805</u>                                 |

See accompanying notes to the basic financial statements.

Marion City School District

Balance Sheet  
Governmental Funds  
June 30, 2003

Reconciliation of Total Governmental Fund Balances to  
Net Assets of Governmental Activities  
June 30, 2003

|  | General             | Classroom<br>Facilities | Other<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |  |                     |
|--|---------------------|-------------------------|--------------------------------|--------------------------------|--|---------------------|
|  |                     |                         |                                |                                | Total Governmental Fund Balances   | \$22,412,286        |
| Assets and Other Debits                    |                     |                         |                                |                                | <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>  |                     |
| -----                                      |                     |                         |                                |                                |  |                     |
| Assets                                     |                     |                         |                                |                                | Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.  | 71,405,241          |
| -----                                      |                     |                         |                                |                                | Other long-term assets are not available to pay current-period expenditures and therefore are deferred in the funds.   |                     |
| Equity in Pooled Cash and Cash Equivalents | \$2,436,400         | \$6,771,206             | \$2,110,207                    | \$11,317,813                   |  |                     |
| Cash and Cash Equivalents:                 | 0                   | 5,414,174               | 0                              | 5,414,174                      |  |                     |
| Cash and Cash Equivalents:                 |                     |                         |                                |                                |  |                     |
| With Fiscal Agents                         | 0                   | 0                       | 366                            | 366                            |  |                     |
| Investments                                | 0                   | 10,442,940              | 0                              | 10,442,940                     | Property Taxes   | 1,266,011           |
| Receivables:                               |                     |                         |                                |                                | Intergovernmental  | <u>10,435,162</u>   |
| Taxes                                      | 11,524,403          | 0                       | 1,340,326                      | 12,864,729                     |  | 11,701,173          |
| Accounts                                   | 10,051              | 0                       | 9,050                          | 19,101                         | Pension obligation payable includes contractually required pension contributions not expected to be paid with available expendable resources and, therefore, not reported in the funds | (246,284)           |
| Intergovernmental                          | 101,455             | 9,892,593               | 832,913                        | 10,826,961                     |  |                     |
| Interfund Receivable                       | 327,670             | 0                       | 0                              | 327,670                        |  |                     |
| Prepaid Items                              | 86,559              | 0                       | 0                              | 86,559                         |  |                     |
| Material and Supplies Inventory            | 286,307             | 0                       | 0                              | 286,307                        |  |                     |
| Restricted Assets:                         |                     |                         |                                |                                | Some liabilities are not due and payable in the current and therefore are not reported in the funds:   |                     |
| Equity in Pooled Cash and Cash Equivalents | 429,485             | 0                       | 0                              | 429,485                        | Compensated Absences Payable   | (3,189,475)         |
|  |                     |                         |                                |                                | Capital Lease Payable  | (18,975)            |
|  |                     |                         |                                |                                | G.O. Bonds and Notes Payable   | (15,097,513)        |
|  |                     |                         |                                |                                | Accrued Interest Payable   | <u>(69,112)</u>     |
|  |                     |                         |                                |                                |  | <u>(18,375,075)</u> |
| Total Assets                               | <u>\$15,202,330</u> | <u>\$32,520,913</u>     | <u>\$4,292,862</u>             | <u>\$52,016,105</u>            | Net Assets of Governmental Activities  | <u>\$86,897,341</u> |
| Liabilities                                |                     |                         |                                |                                |  |                     |
| -----                                      |                     |                         |                                |                                |  |                     |
| Accounts Payable                           | \$217,936           | 0                       | 118,584                        | \$336,520                      |  |                     |
| Contracts Payable                          | 0                   | 3,143,132               | 0                              | 3,143,132                      |  |                     |
| Accrued Wages and Benefits                 | 4,424,675           | 0                       | 427,517                        | 4,852,192                      |  |                     |
| Retainage Payable                          | 0                   | 1,181,495               | 0                              | 1,181,495                      |  |                     |
| Interfund Payable                          | 0                   | 0                       | 196,388                        | 196,388                        |  |                     |
| Pension Obligation Payable                 | 586,244             | 0                       | 83,558                         | 669,802                        |  |                     |
| Deferred Revenue-Property Taxes            | 7,889,334           | 0                       | 899,428                        | 8,788,762                      |  |                     |
| Deferred Revenue- Intergovernmental        | 0                   | 9,892,593               | 542,569                        | 10,435,162                     |  |                     |
| Matured Interest Payable                   | 0                   | 0                       | 366                            | 366                            |  |                     |
| Total Liabilities                          | <u>\$13,118,189</u> | <u>\$14,217,220</u>     | <u>\$2,268,410</u>             | <u>\$29,603,819</u>            |  |                     |
| Fund Balances:                             |                     |                         |                                |                                |  |                     |
| -----                                      |                     |                         |                                |                                |  |                     |
| Reserved for Encumbrances                  | \$557,320           | \$4,507,303             | \$151,027                      | \$5,215,650                    |  |                     |
| Reserved for Inventory                     | 286,307             | 0                       | 0                              | 286,307                        |  |                     |
| Reserved for Taxes Unappropriated          | 3,635,069           | 0                       | 440,898                        | 4,075,967                      |  |                     |
| Reserved for Textbooks                     | 429,485             | 0                       | 0                              | 429,485                        |  |                     |
| Unreserved , Reported in:                  |                     |                         |                                |                                |  |                     |
| General Fund (Deficit)                     | (2,824,040)         | 0                       | 0                              | (2,824,040)                    |  |                     |
| Special Revenue Funds                      | 0                   | 0                       | 622,318                        | 622,318                        |  |                     |
| Debt Service Fund                          | 0                   | 0                       | 440,283                        | 440,283                        |  |                     |
| Capital Projects Funds                     | 0                   | 13,796,390              | 366,906                        | 14,163,296                     |  |                     |
| Permanent Funds                            | 0                   | 0                       | 3,020                          | 3,020                          |  |                     |
| Total Fund Balances                        | <u>2,084,141</u>    | <u>18,303,693</u>       | <u>2,024,452</u>               | <u>22,412,286</u>              |  |                     |
| Total Liabilities and Fund Balances        | <u>\$15,202,330</u> | <u>\$32,520,913</u>     | <u>\$4,292,862</u>             | <u>\$52,016,105</u>            |  |                     |

See accompanying notes to the basic financial statements.

Marion City School District

Statement of Revenues, Expenditures  
and Changes in Fund Balances  
Governmental Funds  
For the Fiscal Year Ended June 30, 2003

Reconciliation of the Statement of Revenues, Expenditures and Changes  
in Fund Balances of Governmental Funds to the Statement of Activities  
For the Year Ended June 30, 2003

Net Change in Fund Balances-Total Governmental Funds (\$12,410,363)

Amounts reported in governmental activities in  
the statement of activities are different because:

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

|                 |                  |            |
|-----------------|------------------|------------|
| Capital Outlays | 33,628,409       |            |
| Depreciation    | <u>(834,323)</u> | 32,794,086 |

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

|                |                     |              |
|----------------|---------------------|--------------|
| Property Taxes | 58,239              |              |
| Grants         | <u>(21,272,702)</u> | (21,214,463) |

Repayment of and capital lease principal  
is an expenditure in the governmental funds but the  
repayment reduces long-term liabilities in the state-  
ment of net assets.

|                |              |         |
|----------------|--------------|---------|
| Notes          | 24,900       |         |
| Bonds          | 330,000      |         |
| Capital Leases | <u>7,047</u> | 361,947 |

Note proceeds are other financing sources in the  
governmental funds, but the issuance increases  
the long-term liabilities on the statement of net assets.

(132,413)

In the statement of activities, interest is accrued on  
on outstanding bonds, whereas in governmental funds, an  
interest expenditure is reported when due.

(244)

Some expenses reported in the statement of activities,  
such as compensated absences and intergovernmental  
payable which represents contractually required  
pension contributions, do not require the use of current financial  
resources and therefore are not reported as expenditures  
governmental funds.

|                      |              |           |
|----------------------|--------------|-----------|
| Change in Inventory  | 93,159       |           |
| Compensated Absences | (338,261)    |           |
| Pension Obligations  | <u>5,847</u> | (239,255) |

Change in Net Assets of Governmental Activities (\$840,705)

|   | General            | Classroom<br>Facilities | Other<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|---|--------------------|-------------------------|--------------------------------|--------------------------------|
| Revenues:   |                    |                         |                                |                                |
| Taxes   | \$10,781,535       | \$0                     | \$1,228,269                    | \$12,009,804                   |
| Intergovernmental   | 26,909,632         | 21,294,578              | 3,868,707                      | 52,072,917                     |
| Investment Income   | 292,505            | 703,339                 | 962                            | 996,806                        |
| Tuition   | 1,585,702          | 0                       | 0                              | 1,585,702                      |
| Extracurricular Activities                                    | 0                  | 0                       | 112,821                        | 112,821                        |
| Classroom Materials and Fees                                  | 53,954             | 0                       | 644                            | 54,598                         |
| Miscellaneous   | 37,809             | 0                       | 123,502                        | 161,311                        |
| <b>Total Revenue</b>  | <u>39,661,137</u>  | <u>21,997,917</u>       | <u>5,334,905</u>               | <u>66,993,959</u>              |
| Expenditures:   |                    |                         |                                |                                |
| Current:  |                    |                         |                                |                                |
| Instruction:  |                    |                         |                                |                                |
| Regular   | 22,295,329         | 4,806                   | 1,520,179                      | 23,820,314                     |
| Special   | 4,131,068          | 0                       | 1,340,444                      | 5,471,512                      |
| Vocational  | 1,070,910          | 0                       | 0                              | 1,070,910                      |
| Adult/Continuing  | 13,292             | 0                       | 78,023                         | 91,315                         |
| Other   | 259,440            | 0                       | 3,657                          | 263,097                        |
| Support Services:   |                    |                         |                                |                                |
| Pupils  | 1,925,440          | 0                       | 108,185                        | 2,033,625                      |
| Instructional Staff   | 1,325,466          | 0                       | 618,310                        | 1,943,776                      |
| Board of Education  | 168,742            | 0                       | 0                              | 168,742                        |
| Administration  | 3,586,539          | 0                       | 274,230                        | 3,860,769                      |
| Fiscal  | 611,001            | 0                       | 27,249                         | 638,250                        |
| Business  | 383,024            | 0                       | 395                            | 383,419                        |
| Operation and Maintenance                                     | 3,473,791          | 0                       | 39,875                         | 3,513,666                      |
| Pupil Transportation  | 727,641            | 0                       | 35,931                         | 763,572                        |
| Operation of Non-Instructional                                | 292,253            | 0                       | 113,471                        | 405,724                        |
| Extracurricular Activities                                    | 489,012            | 0                       | 186,594                        | 675,606                        |
| Facilities Acquisition and Construction Serv                  | 29,167             | 32,921,494              | 241,665                        | 33,192,326                     |
| Debt Service:   |                    |                         |                                |                                |
| Principal Retirement  | 31,947             | 0                       | 330,000                        | 361,947                        |
| Interest and Fiscal Charges                                   | 4,589              | 0                       | 830,384                        | 834,973                        |
| <b>Total Expenditures</b>                                     | <u>40,818,651</u>  | <u>32,926,300</u>       | <u>5,748,592</u>               | <u>79,493,543</u>              |
| Excess of Revenues<br>Under Expenditures                      | <u>(1,157,514)</u> | <u>(10,928,383)</u>     | <u>(413,687)</u>               | <u>(12,499,584)</u>            |
| Other Financing Sources (Uses):                               |                    |                         |                                |                                |
| Proceeds of Notes   | 132,413            | 0                       | 0                              | 132,413                        |
| Proceeds from Sale of Fixed Assets                            | 53,940             | 0                       | 0                              | 53,940                         |
| Operating Transfers In  | 0                  | 0                       | 60,000                         | 60,000                         |
| Operating Transfers Out                                       | (157,132)          | 0                       | 0                              | (157,132)                      |
| <b>Total Other Sources (Uses)</b>                             | <u>29,221</u>      | <u>0</u>                | <u>60,000</u>                  | <u>89,221</u>                  |
| <b>Net Change in Fund Balance</b>                             | <u>(1,128,293)</u> | <u>(10,928,383)</u>     | <u>(353,687)</u>               | <u>(12,410,363)</u>            |
| Fund Balances at<br>Beginning of Year (Restated - See Note 3) | 3,119,275          | 29,232,076              | 2,378,139                      | 34,729,490                     |
| Increase in Reserve<br>for Inventory                          | 93,159             | 0                       | 0                              | 93,159                         |
| <b>Fund Balances End of Year</b>                              | <u>\$2,084,141</u> | <u>\$18,303,693</u>     | <u>\$2,024,452</u>             | <u>\$22,412,286</u>            |

See accompanying notes to the basic financial statements.



Marion City Schools

Statement of Revenues, Expenditures and Changes  
In Fund Balance - Budget (Non-GAAP) and Actual  
General Fund

For the Fiscal Year Ended June 30, 2003

|  | -----Budgeted Amounts----- |                    |                    | Variance<br>Positive<br>(Negative) |
|--|----------------------------|--------------------|--------------------|------------------------------------|
|  | Original                   | Final              | Actual             |                                    |
| <b>Revenues:</b>   |                            |                    |                    |                                    |
| -----  |                            |                    |                    |                                    |
| Taxes  | \$10,121,840               | \$10,121,840       | \$10,903,987       | \$782,147                          |
| Earnings on Investments  | 550,000                    | 550,000            | 292,505            | (257,495)                          |
| Tuition and Fees   | 1,622,175                  | 1,647,175          | 1,638,818          | (8,357)                            |
| Intergovernmental Revenue  | 27,046,598                 | 27,046,598         | 26,908,226         | (138,372)                          |
| Miscellaneous  | 2,000                      | 2,000              | 23,604             | 21,604                             |
| <b>Total Revenues</b>  | <b>39,342,613</b>          | <b>39,367,613</b>  | <b>39,767,140</b>  | <b>399,527</b>                     |
| <b>Expenditures:</b>   |                            |                    |                    |                                    |
| -----  |                            |                    |                    |                                    |
| <b>Current:</b>  |                            |                    |                    |                                    |
| <b>Instruction:</b>  |                            |                    |                    |                                    |
| Regular  | 23,471,244                 | 23,587,044         | 22,607,968         | 979,076                            |
| Special  | 3,866,053                  | 4,128,153          | 4,188,441          | (60,288)                           |
| Vocational   | 503,460                    | 506,060            | 507,918            | (1,858)                            |
| Adult/Continuing   | 15,214                     | 17,414             | 16,102             | 1,312                              |
| Other  | 237,500                    | 299,999            | 264,162            | 35,837                             |
| <b>Support Services:</b>   |                            |                    |                    |                                    |
| Pupils   | 1,880,505                  | 1,906,405          | 1,882,734          | 23,671                             |
| Instructional Staff  | 1,222,872                  | 1,244,172          | 1,349,810          | (105,638)                          |
| Board of Education   | 164,764                    | 186,764            | 182,592            | 4,172                              |
| Administration   | 3,477,825                  | 3,483,725          | 3,479,364          | 4,361                              |
| Fiscal   | 573,740                    | 599,740            | 615,337            | (15,597)                           |
| Business   | 392,713                    | 406,113            | 405,355            | 758                                |
| Operation and Maintenance of Plant   | 3,486,338                  | 3,483,138          | 3,765,625          | (282,487)                          |
| Pupil Transportation   | 571,543                    | 571,543            | 730,383            | (158,840)                          |
| Operation of Non-Instructional Services  | 106,042                    | 106,042            | 292,253            | (186,211)                          |
| Extracurricular Activities   | 533,700                    | 473,730            | 488,930            | (15,200)                           |
| Facilities Acquisition and Construction Services   | 22,175                     | 25,647             | 25,207             | 440                                |
| <b>Debt Service:</b>   |                            |                    |                    |                                    |
| Principal Payments   | 0                          | 0                  | 26,853             | (26,853)                           |
| <b>Total Expenditures</b>  | <b>40,525,688</b>          | <b>41,025,689</b>  | <b>40,829,034</b>  | <b>196,655</b>                     |
| <b>Excess of Revenues Over Expenditures</b>  | <b>(1,183,075)</b>         | <b>(1,658,076)</b> | <b>(1,061,894)</b> | <b>596,182</b>                     |
| <b>Other Financing Sources (Uses):</b>   |                            |                    |                    |                                    |
| -----  |                            |                    |                    |                                    |
| Refund of Prior Year Expenditures  | 25,000                     | 0                  | 13,935             | 13,935                             |
| Sale and Loss of Assets  | 0                          | 0                  | 53,940             | 53,940                             |
| Proceeds of Notes  | 0                          | 0                  | 132,413            | 132,413                            |
| Operating Transfers Out  | 0                          | 0                  | (157,132)          | (157,132)                          |
| Advance In   | 0                          | 0                  | 148,000            | 148,000                            |
| Advance Out  | 0                          | 0                  | (327,670)          | (327,670)                          |
| <b>Total Other Financing Sources (Uses)</b>  | <b>25,000</b>              | <b>0</b>           | <b>(136,514)</b>   | <b>(136,514)</b>                   |
| <b>Excess of Revenues and Other<br/>Financing Sources Over (Under)<br/>Expenditures and Other Financing Uses</b> | <b>(1,158,075)</b>         | <b>(1,658,076)</b> | <b>(1,198,408)</b> | <b>459,668</b>                     |
| <b>Fund Balances at Beginning of Year</b>  | <b>2,768,985</b>           | <b>2,768,985</b>   | <b>2,768,985</b>   | <b>0</b>                           |
| <b>Prior Year Encumbrances Appropriated</b>  | <b>612,464</b>             | <b>612,464</b>     | <b>612,464</b>     | <b>0</b>                           |
| <b>Fund Balances (Deficit) at End of Year</b>  | <b>\$2,223,374</b>         | <b>\$1,723,373</b> | <b>\$2,183,041</b> | <b>\$459,668</b>                   |

See accompanying notes to the basic financial statements.

Marion City School District

Statement of Net Assets  
 Proprietary Funds  
 June 30, 2003

|   | <u>Enterprise</u>         |
|---|---------------------------|
| Assets  |                           |
| -----   |                           |
| Equity in Pooled Cash and Cash Equivalents      | \$217,796                 |
| Receivables:                                    |                           |
| Accounts  | 1,090                     |
| Material and Supplies Inventory                 | <u>91,618</u>             |
| Total Current Assets                            | 310,504                   |
| Depreciable Capital Assets, Net                 | <u>53,097</u>             |
| Total Assets                                    | <u><u>363,601</u></u>     |
|   |                           |
| Liabilities                                     |                           |
| -----   |                           |
| Accounts Payable                                | 15,660                    |
| Accrued Wages and Benefits                      | 144,934                   |
| Interfund Payables                              | 131,282                   |
| Pension Obligation Payable                      | 102,622                   |
| Compensated Absences Payable                    | <u>7,106</u>              |
| Total Current Liabilities                       | 401,604                   |
| Long-Term Liabilities:                          |                           |
| Compensated Absences Payable                    | <u>78,876</u>             |
| Total Long-Term Liabilities                     | <u>78,876</u>             |
| Total Liabilities                               | 480,480                   |
|   |                           |
| Net Assets                                      |                           |
| -----   |                           |
| Invested in capital assets, net of related debt | 53,097                    |
| Unrestricted                                    | <u>(169,976)</u>          |
| Total Net Assets                                | <u><u>(\$116,879)</u></u> |

See accompanying notes to the basic financial statements.

Marion City School District

Statement of Revenues, Expenses  
and Changes in Fund Net Assets  
Proprietary Funds

For the Fiscal Year Ended June 30, 2003

|                                       | <u>Business-Type<br/>Activities</u> |
|---------------------------------------|-------------------------------------|
| Operating Revenues:                   |                                     |
| Food Services                         | \$723,417                           |
| Classroom Fees                        | 17,365                              |
| Other Operating Revenues              | <u>9,125</u>                        |
| Total Operating Revenues              | <u>749,907</u>                      |
| Operating Expenses:                   |                                     |
| Salaries                              | 702,049                             |
| Fringe Benefits                       | 538,449                             |
| Purchased Services                    | 166,517                             |
| Materials and Supplies                | 693,338                             |
| Depreciation                          | <u>1,329</u>                        |
| Total Operating Expenses              | <u>2,101,682</u>                    |
| Operating Loss                        | <u>(1,351,775)</u>                  |
| Non-Operating Revenues:               |                                     |
| Federal Donated Commodities           | 129,292                             |
| Operating Grants                      | 1,029,382                           |
| Other Non-Operating Income            | <u>1,034</u>                        |
| Total Non-Operating Revenues          | <u>1,159,708</u>                    |
| Loss before transfers                 | (192,067)                           |
| Transfers in                          | <u>97,132</u>                       |
| Change in Net Assets                  | (94,935)                            |
| Total Net Assets at Beginning of Year | <u>(21,944)</u>                     |
| Total Net Assets at End of Year       | <u><u>(\$116,879)</u></u>           |

See accompanying notes to the basic financial statements.

Marion City School District  
Statement of Cash Flows  
Proprietary Funds  
For the Fiscal Year Ended June 30, 2003

|  | <u>Enterprise</u>           |
|--|-----------------------------|
| <b>Increase (Decrease) in Cash and Cash Equivalents</b>                          |                             |
| <b>Cash Flows from Operating Activities:</b>                                     |                             |
| Cash Received from Customers   | \$740,109                   |
| Cash Payments to Suppliers for Goods and Services                                | (771,905)                   |
| Cash Payments to Employees for Services  | (773,908)                   |
| Cash Payments for Employee Benefits  | <u>(433,970)</u>            |
| Net Cash Used in Operating Activities  | <u>(1,239,674)</u>          |
| <b>Cash Flows from Noncapital Financing Activities:</b>                          |                             |
| Operating Grants Received  | 1,145,644                   |
| Operating Transfers In   | 97,132                      |
| Short-Term Loans from Other Funds  | 131,282                     |
| Payback of Short-Term Loans from Other Funds                                     | <u>(107,500)</u>            |
| Net Cash Provided by Noncapital Financing Activities                             | <u>1,266,558</u>            |
| <b>Cash Flows from Capital &amp; Related Financing Activities:</b>               |                             |
| Payments for Capital Acquisitions  | <u>(3,402)</u>              |
| Net Cash Used in Capital and Related Financing Activities                        | <u>(3,402)</u>              |
| <b>Cash Flows from Investing Activities:</b>                                     |                             |
| Interest Received  | <u>1,734</u>                |
| Net Cash Provided by Capital and Related Financing Activities                    | <u>1,734</u>                |
| Net Increase (Decrease) in Cash and Cash Equivalents                             | 25,216                      |
| Cash and Cash Equivalents Beginning of Year                                      | <u>192,580</u>              |
| Cash and Cash Equivalents End of Year  | <u>\$217,796</u>            |
| <b>Reconciliation of Operating Loss to Net Cash Used in Operating Activities</b> |                             |
| Operating Loss   | (\$1,351,775)               |
| Adjustments:   |                             |
| Net Cash from Operating Activities:  |                             |
| Depreciation   | 1,329                       |
| Donated Commodities Revenue  | 129,292                     |
| (Increase) Decrease in Assets:   |                             |
| Accounts Receivable  | 111                         |
| Material and Supply Inventory  | (27,446)                    |
| Increase (Decrease) in Liabilities:  |                             |
| Accounts Payable   | (23,544)                    |
| Accrued Wages and Benefits Payable   | 10,939                      |
| Compensated Absences Payable   | 4,729                       |
| Pension Obligation Payable   | <u>16,691</u>               |
| Total Adjustments  | <u>112,101</u>              |
| Net Cash Used in Operating Activities  | <u><u>(\$1,239,674)</u></u> |

See accompanying notes to the basic financial statements.

Marion City School District

Statement of Fiduciary Net Assets  
Fiduciary Funds

June 30, 2003

|   | <u>Private Purpose<br/>Trust</u> | <u>Agency</u>          |
|---|----------------------------------|------------------------|
| Assets:                                       |                                  |                        |
| -----   |                                  |                        |
| Equity in Pooled Cash and<br>Cash Equivalents | \$114,008                        | \$72,515               |
| Accounts Receivable                           | <u>0</u>                         | <u>1,410</u>           |
| Total Assets                                  | <u><u>114,008</u></u>            | <u><u>73,925</u></u>   |
| <br>  |                                  |                        |
| Liabilities:                                  |                                  |                        |
| -----   |                                  |                        |
| Due to Students                               | <u>0</u>                         | <u>73,925</u>          |
| Total Liabilities                             | <u><u>\$0</u></u>                | <u><u>\$73,925</u></u> |
| <br>  |                                  |                        |
| Net Assets                                    |                                  |                        |
| -----   |                                  |                        |
| Restricted for:                               |                                  |                        |
| Scholarships                                  | 89,442                           |                        |
| <br>  |                                  |                        |
| Unrestricted:                                 |                                  |                        |
| Held in Trust for Scholarships                | <u>24,566</u>                    |                        |
| Total Net Assets                              | <u><u>\$114,008</u></u>          |                        |

See accompanying notes to the basic financial statements.

Marion City School District

Statement of Changes in Fiduciary Net Assets  
Fiduciary Funds

For the Fiscal Year Ended June 30, 2003

|                              | <u>Private Purpose<br/>Trust</u> |
|------------------------------|----------------------------------|
| Additions:                   |                                  |
| -----                        |                                  |
| Interest Income              | <u>\$2,877</u>                   |
| Total Additions              | 2,877                            |
| Deductions                   |                                  |
| -----                        |                                  |
| Materials and Supplies       | 400                              |
| Other                        | <u>11,700</u>                    |
| Total Deductions             | <u>12,100</u>                    |
| Change in Net Assets         | (9,223)                          |
| Net Assets Beginning of Year | <u>123,231</u>                   |
| Net Assets End of Year       | <u><u>\$114,008</u></u>          |

See accompanying notes to the basic financial statements.

**MARION CITY SCHOOL DISTRICT  
MARION COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

---

**NOTE 1 -- DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY**

The Marion City School District (School District) is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The School District operates under an elected Board of Education (5 members) elected at-large for staggered four year terms. The School District provides educational services as authorized by state statute and/or federal guidelines.

The School District is located in central Marion County in north central Ohio, approximately 50 miles north of Columbus, 90 miles southeast of Toledo, and 115 miles southwest of Cleveland. The School District encompasses approximately 8 square miles. The School District ranks as the 58th largest by enrollment among the 740 districts in the State. It currently operates 11 elementary schools, 3 middle schools, and 1 comprehensive high school. The School District employs 215 non-certified, 475 certified, and 30 administrative full-time and part-time employees to provide services to approximately 5,530 students in grades K through 12, more than 3,000 adult education students, and various community groups.

**Reporting Entity** A reporting entity is comprised of the primary government, component units, and other organizations that are included to insure that the financials are not misleading. The primary government of the School District consists of all funds, departments, boards, and agencies that are not legally separate from the School District. For Marion City School District, this includes general operations, food service, preschool, community services, and student related activities of the School District.

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Components units may also include organizations that are fiscally dependent on the School District in that the School District approves their budget, the issuance of their debt or the levying of their taxes.

The component unit column on the combined financial statements identifies the financial data of the School District's discretely presented component unit, Marion City Schools Digital Academy. It is reported separately to emphasize that it is legally separate from the School District.

**Marion City Schools Digital Academy** – Marion City Schools Digital Academy (Academy) is a legally separate not-for-profit served by an appointed six-member Board of Directors. The Academy, under a contractual agreement with the Marion City School District, provides comprehensive educational programs of high quality, tied to state and national standards, which can be delivered to students in the K-12 population entirely through distance learning technologies. It is operated in cooperation with the School District to provide an innovative and cost-effective solution to the special problems of disabled students, students removed from school for disciplinary reasons, students needing advanced or specialized courses, and others, including home-schooled students. The School District elects three persons employed and serving in administrator positions within the School District, one member who is neither an officer nor employee of the School District who is a public educator or other public official representing a governmental entity that desires to further the establishment and operation of the Academy, and one member who is neither an officer nor employee of the School District who is a representative initially appointed by the Tri-Rivers Educational Computer Association (TRECA). Therefore, the Academy is reflected as a component unit of the Marion City School District. Marion City Schools Digital Academy operates on a fiscal year ending June 30. Separately issued financial statements can be obtained from Marion City Schools Digital Academy, 910 East Church Street, Marion, Ohio, 43302. Note disclosures for the Academy are reflected in Note 19 of the notes to the basic financial statements.

**MARION CITY SCHOOL DISTRICT  
MARION COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

---

The following organizations are described due to their relationship to the School District.

**Related Organization:**

**Marion Public Library** - The School District is not involved in the budgeting process or operational management of the Library, nor does it subsidize or finance its operations. The selection of directors and approval of the annual budget by the School District is conducted only to comply with statutory requirements.

**Jointly Governed Organizations:**

Tri-Rivers Career Center (TRCC) - The TRCC is a jointly governed organization, established by the Ohio Revised Code (ORC) to provide vocational and special needs to students. The TRCC accepts non-tuition students from the School District as a member school. The School District does not retain an ongoing financial interest or responsibility in the TRCC.

The School District is a member of the Tri-Rivers Educational Computer Association (TRECA), one of over two-dozen such consortiums in the State. TRECA is an association of public school districts within the boundaries of Clark, Cuyahoga, Delaware, Hamilton, Knox, Mahoning, Marion, Morrow, Muskingum, Summit, Trumbull, Union, and Wyandot counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of TRECA consists of one representative from each county elected by majority vote of all charter member school districts within each county, one representative from the city school districts, and the superintendent from Tri-Rivers Joint Vocational School. This consortium was organized as a council-of-governments entity in accordance with Ohio statute. Financial information can be obtained from Mike Carder, who serves as Director, 2222 Marion Mt. Gilead Road, Marion, Ohio 43302.

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

The financial statements of the School District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School District also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental and business-type activities and to its proprietary funds provided they do not conflict with or contradict GASB pronouncements. Following are the more significant of the School District's accounting policies.

**A. BASIS OF PRESENTATION**

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



**MARION CITY SCHOOL DISTRICT  
MARION COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

---

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

**Fund Financial Statements** Fund financial statements are designed to present financial information of the School District at a 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 single column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

**B. FUND ACCOUNTING**

The School District uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain School District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the School District are classified into three categories: governmental, proprietary and fiduciary.

**Governmental Funds** Governmental funds focus on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may be or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The General Fund and the Classroom Facilities Fund are the School District's major governmental funds:

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

**Classroom Facilities Fund** This capital project fund is used to account for all financial resources related to the construction of the new high school, middle schools and elementary schools. Bonds, notes, and grant monies are used to finance the construction of the School District.

The other governmental funds of the School District are used to account for (a) the accumulation of resources for, and payments of, general long-term principal, interest, and related costs; (b) resources to be used for the acquisition, construction or improvement of capital facilities other than those financed by trust funds; and (c) for grants and other resources whose use is restricted to a particular purpose.

**Proprietary Funds** Proprietary funds focus on the determination of operating income, changes in net assets, financial position and cash flows. The following is the School District's proprietary fund type:

**Enterprise Funds** Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The School District has no major enterprise funds.

**MARION CITY SCHOOL DISTRICT  
MARION COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

---

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

**C. MEASUREMENT FOCUS**

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

Like the government-wide statements, all proprietary fund types are accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of revenues, expenses, and changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the School District finances and meets the cash flow needs of its proprietary activities.

The private purpose trust fund is accounted for using the economic resources measurement focus.

**D. BASIS OF ACCOUNTING**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue and the presentation of expenses versus expenditures. Proprietary and fiduciary funds also use the accrual basis of accounting.

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

**MARION CITY SCHOOL DISTRICT  
MARION COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

---

Non-exchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the fiscal year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the School District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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

**Deferred Revenue** Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of June 30, 2003, but which were levied to finance fiscal year 2004 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

**Expenses/Expenditures** On the accrual basis of accounting, expenses are recognized at the time they are incurred.

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

**E. BUDGETARY PROCESS**

All funds, other than agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of control has been established by the Board of Education at the object level within each fund and function.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported as the original and final budgeted amounts in the budgetary statement reflect the amounts in the certificate when the original and final appropriations were adopted.

**MARION CITY SCHOOL DISTRICT  
MARION COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

---

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

**F. CASH AND INVESTMENTS**

To improve cash management, certain cash received by the School District is pooled. Monies for all School District funds, except a portion of the Classroom Facilities fund, are maintained in this pool or temporarily used to purchase short-term investments. Individual fund integrity is maintained through School District's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the balance sheet.

During fiscal year 2003, investments were limited to money market mutual funds, treasury notes, federal agency securities, nonnegotiable certificates of deposit, repurchase agreements and STAR Ohio. Except for nonparticipating investment contracts and nonnegotiable certificates of deposit, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts, such as repurchase agreements and nonnegotiable certificates of deposit are reported at cost.

The School District has invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during fiscal year 2003. STAR Ohio is an investment pool managed by the State Treasurer's office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2003.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2003 amounted to \$292,505 which includes \$125,466 assigned from other School District Funds.

For presentation on the financial statements, investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are considered to be cash equivalents. Investments with an initial maturity of more than three months that are not purchased from the pool are reported as investments.

**G. RESTRICTED ASSETS**

Restricted assets in the general fund represent cash and cash equivalents that are restricted in use by state statute. See Note 18 for details.

**H. PREPAID ITEMS**

Payments made to vendors for services that will benefit periods beyond June 30, 2003, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is reported in the year which services are consumed.

**MARION CITY SCHOOL DISTRICT  
MARION COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

---

**I. INVENTORIES**

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

On the fund financial statements, inventories of governmental funds are stated at cost while inventories of proprietary funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in/first-out (FIFO) basis. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased. Inventories of proprietary funds consist of donated food, purchased food, and school supplies held for resale and are expensed when used.

**J. CAPITAL ASSETS**

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the government funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the fiscal year. Donated capital assets are recorded at their fair market values as of the date received. The School District has a policy of not capitalizing assets with a cost of less than \$500 and a useful life of less than 5 years. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets is also capitalized.

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

| <u>Description</u>         | <u>Estimated Lives</u> |
|----------------------------|------------------------|
| Land Improvements          | 15                     |
| Buildings and Improvements | 40                     |
| Furniture and Equipment    | 5-10                   |
| Vehicles                   | 10                     |

**K. INTERFUND BALANCES**

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental and business-type activities columns of the statement of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

**MARION CITY SCHOOL DISTRICT  
MARION COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

---

**L. COMPENSATED ABSENCES**

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

In accordance with the provisions of Statement No. 16 of the Governmental Accounting Standards Board, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at the balance sheet date by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees age fifty (50) or greater with at least ten (10) years of service; or twenty (20) years of service at any age were considered expected to become eligible to retire in accordance with GASB 16.

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

**M. ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS**

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. All payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

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

**N. NET ASSETS**

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

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

**MARION CITY SCHOOL DISTRICT  
MARION COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

---

**O. FUND BALANCE RESERVES**

The School District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, inventory, property taxes, and textbooks in the governmental funds.

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute. The reserve for textbooks represents money required to be set-aside by statute.

**P. OPERATING REVENUES AND EXPENSE**

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, these revenues are tuition for adult education classes, and sales for food service and uniform school supplies. Operating expenses are necessary costs incurred to provide the good or service that are the primary activity of the fund. All revenues and expenses not meeting this definition are reported as non-operating.

**Q. INTERFUND TRANSACTIONS**

Transfers between governmental and business-type activities on the governmental-wide financial statements are reported in the same manner as general revenues. Transfers within governmental activities are eliminated on the government-wide financial statements.

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

**R. ESTIMATES**

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

**S. EXTRAORDINARY AND SPECIAL ITEMS**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2003.

**MARION CITY SCHOOL DISTRICT  
MARION COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

---

**NOTE 3 -- CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCE**

**A. CHANGES IN ACCOUNTING PRINCIPLES**

For fiscal year 2003, the School District has implemented GASB Statement No. 34, "Basic Financial Statements - Management's Discussion and Analysis - for State and Local Governments"; GASB Statement No. 37, "Basic Financial Statements for State and Local Governments: Omnibus", GASB Statement No. 38, "Certain Financial Statement Note Disclosures", GASB Statement No. 41, "Budgetary Comparison Schedule - Perspective Differences", and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements". At June 30, 2002, there was no effect on fund balance as a result of implementing GASB Statements 37, 38 and 41.

GASB Statement No. 34 creates new basic financial statements for reporting on the School District's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Non-major funds are presented in total in one column. Fiduciary funds are reported by type.

The government-wide financial statements split the School District's programs between business-type and governmental activities. The beginning net assets amount for the business-type activities equals fund equity of the enterprise funds from last year. The beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at June 30, 2002, based on the guidance provided in Statement No. 34 and by the conversion to the accrual basis of accounting.

GASB Statement No. 37 clarifies certain provisions of Statement No. 34, including the required content of Management's Discussion and Analysis, the classification of program revenues and the criteria for determining major funds. GASB Statement No. 38 modifies, establishes and rescinds certain financial statement note disclosures.

GASB Statement No. 41 allows the presentation of budgetary schedules as required supplementary information based on the fund, organization or program structure that the government uses for its legally adopted budget when significant budgetary perspective differences result in the school district not being able to present budgetary comparisons for the general and each major special revenue fund.

GASB Interpretation of No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.



**MARION CITY SCHOOL DISTRICT  
MARION COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

**B. RESTATEMENT OF FUND BALANCE/NET ASSETS**

The restatements of GASB Statement No. 34 and GASB Interpretation No. 6 had the following effects on fund balance of the major and non-major funds of the School District as they were previously reported.

The transition from governmental fund balance to net assets of the governmental activities is also presented.

|   | <u>General</u>     | <u>Classroom<br/>Facilities</u> | <u>Nonmajor</u>    | <u>Total</u>        |
|---|--------------------|---------------------------------|--------------------|---------------------|
| Fund Balance June 30, 2002                        | \$2,917,251        | \$29,232,076                    | \$2,384,321        | \$34,533,648        |
| Reclassification of Funds                         |                    |                                 | (8,666)            | (8,666)             |
| Interpretation 6 Adjustment:                      |                    |                                 |                    |                     |
| Compensated Absences Payable                      | <u>202,024</u>     | <u>-</u>                        | <u>2,484</u>       | <u>204,508</u>      |
| Adjusted Fund Balance                             | <u>\$3,119,275</u> | <u>\$29,232,076</u>             | <u>\$2,378,139</u> | <u>\$34,729,490</u> |
| GASB 34 Adjustments:                              |                    |                                 |                    |                     |
| Capital Assets                                    |                    |                                 |                    | 38,611,155          |
| Accrued Interest Payable                          |                    |                                 |                    | (68,868)            |
| Pension Obligation Payable                        |                    |                                 |                    | 252,131             |
| Long-Term Liabilities                             |                    |                                 |                    | (18,197,236)        |
| Long-Term (Deferred) Assets                       |                    |                                 |                    | <u>32,915,636</u>   |
| Governmental Activities Net Assets, June 30, 2002 |                    |                                 |                    | <u>\$87,738,046</u> |

**NOTE 4 – ACCOUNTABILITY & COMPLIANCE**

**A. DEFICIT FUND BALANCE/RETAINED EARNINGS**

Fund balances/retained earnings at June 30, 2003 included the following individual fund deficits:

| <u>Nonmajor Funds</u>         | <u>Deficit</u> |
|-------------------------------|----------------|
| Data Communications           | \$ 126,658     |
| Miscellaneous State Grants    | 20,024         |
| Title VI-B                    | 74,673         |
| Limited English Migrant Grant | 4,459          |
| Preschool for the Handicapped | 1,111          |
| Food Service                  | 194,606        |

These funds complied with Ohio state law, which does not permit a cash basis deficit at year-end. The deficit fund balances in the non-major funds results from adjustments for accrued liabilities.

The deficit retained earnings in the Food Service enterprise fund is caused by the application of GAAP namely in the reporting of a liability for accrued wages, benefits, and pension obligations attributable to the fiscal year.

**MARION CITY SCHOOL DISTRICT  
MARION COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

**B. COMPLIANCE**

The General Fund had the following expenditures in excess of appropriations contrary to Section 5705.41(B), Ohio Revised Code:

| <u>Function</u>            | <u>Object Code</u>   | <u>Appropriations</u> | <u>Budgetary Expenditures</u> | <u>Variance</u> |
|----------------------------|----------------------|-----------------------|-------------------------------|-----------------|
| Special Instruction        | Retirement           | \$ 914,935            | \$ 992,322                    | \$ (77,387)     |
| Vocational Education       | Retirement           | 110,291               | 117,593                       | (7,302)         |
| Pupils                     | Salaries             | 1,353,898             | 1,373,529                     | (19,631)        |
| Instructional Staff        | Salaries             | 714,278               | 810,394                       | (96,116)        |
| Instructional Staff        | Retirement           | 281,257               | 318,778                       | (37,521)        |
| Administration             | Retirement           | 821,713               | 850,511                       | (28,798)        |
| Administration             | Purchase Services    | 132,409               | 177,713                       | (45,304)        |
| Administration             | Miscellaneous        | 199,000               | 202,499                       | (3,499)         |
| Fiscal Services            | Salaries             | 210,924               | 225,888                       | (14,964)        |
| Fiscal Services            | Retirement           | 85,227                | 88,694                        | (3,467)         |
| Business                   | Salaries             | 229,885               | 239,505                       | (9,620)         |
| Business                   | Retirement           | 87,194                | 92,317                        | (5,123)         |
| Operation & Maintenance    | Salaries             | 1,352,166             | 1,358,801                     | (6,635)         |
| Operation & Maintenance    | Purchase Services    | 1,356,432             | 1,649,376                     | (292,944)       |
| Operation & Maintenance    | Supplies & Materials | 127,760               | 157,391                       | (29,631)        |
| Operation & Maintenance    | Capital Outlay       | 19,830                | 21,504                        | (1,674)         |
| Pupil Transportation       | Capital Outlay       | 1,000                 | 220,243                       | (219,243)       |
| Oper.-Non Instructional    | Purchase Services    | 105,892               | 292,253                       | (186,361)       |
| Extracurricular Activities | Salaries             | 378,650               | 401,560                       | (22,910)        |
| Repayment of Debt          | Principal            | -                     | 26,853                        | (26,853)        |
| Transfers - Out            | Transfers            | -                     | 157,132                       | (157,132)       |

**MARION CITY SCHOOL DISTRICT  
MARION COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

At June 30, 2003, appropriations exceeded total estimated resources in the following funds:

| <b>Fund</b>                                       | <b>Estimated Resources</b> | <b>Appropriations</b> | <b>Variance</b> |
|---|----------------------------|-----------------------|-----------------|
| Tech Equity                                       | \$ 138                     | \$ 62,906             | \$ (62,768)     |
| Food Service                                      | 1,852,873                  | 1,896,268             | (43,395)        |
| Reading Recovery                                  | 37,004                     | 60,181                | (23,177)        |
| Auxiliary Service                                 | 39,298                     | 160,047               | (120,749)       |
| DPIA  | 52                         | 705,913               | (705,861)       |
| Miscellaneous State Grants                        | 147,073                    | 159,654               | (12,581)        |
| ABLE Grant  | 124,033                    | 175,322               | (51,289)        |
| Title VI-B  | 165,509                    | 616,949               | (451,440)       |
| Title I   | 251,352                    | 1,383,504             | (1,132,152)     |
| Title VI  | 8,014                      | 22,599                | (14,585)        |
| Drug Free Schools                                 | 27,332                     | 49,591                | (22,259)        |
| Preschool Grant                                   | 40,470                     | 45,461                | (4,991)         |
| Comprehensive School Reform/Title VI-R/Title II-A | 131,034                    | 271,170               | (140,136)       |
| Miscellaneous Federal Grants                      | 84,795                     | 118,071               | (33,276)        |

**NOTE 5 -- BUDGETARY BASIS OF ACCOUNTING**

While the School District is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are that:

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

**MARION CITY SCHOOL DISTRICT  
MARION COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

The following table summarizes the adjustments necessary to reconcile the GAAP and budgetary basis statements for the general fund:

| <b>General</b>                           | <b>Net Change in Fund Balance</b> |
|--|-----------------------------------|
| <u>Budget Basis</u>                      | \$(1,198,408)                     |
| Adjustments:                             |                                   |
| Revenue Accruals:                        |                                   |
| Accrued FY2002, Received in Cash FY2003  | (3,857,829)                       |
| Accrued FY2003, Not Yet Received in Cash | 3,751,826                         |
| Expenditure Accruals:                    |                                   |
| Accrued FY2002, Paid in Cash FY2003      | 4,461,153                         |
| Accrued FY2003, Not Yet Paid in Cash     | (5,133,613)                       |
| Encumbrances                             | 682,843                           |
| Other Financial Sources:                 |                                   |
| Refunds                                  | (13,935)                          |
| Advances In                              | (148,000)                         |
| Advances Out                             | <u>327,670</u>                    |
| GAAP Basis                               | <u>\$(1,128,293)</u>              |

**NOTE 6 -- DEPOSITS AND INVESTMENTS**

**Deposits:**

Statutes require the classification of monies held by the School District into three categories:

*Active Deposits* are those monies required to be kept in a "cash" or "near-cash" status for immediate use by the School District. Such monies must by law be maintained either as cash in the School District treasury, in depository accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) account, or in money market deposit accounts.

*Inactive Deposits* are those monies not required for use within the current five year period of designation of depositories. Ohio law permits inactive monies to be deposited or invested as certificates of deposit maturing not later than the end of the current period of designation of depositories, or as savings or deposit accounts, including, but not limited to, passbook accounts.

*Interim Deposits* are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts, including passbook accounts.

**MARION CITY SCHOOL DISTRICT  
MARION COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

---

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

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

1. United States Treasury bills, bonds, notes or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or other obligations of 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 the Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchased agreement must exceed the principal value of the agreements by at least two percent and be marked to market to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in (1) or (2) 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 mentioned in section 135.03 of the Revised Code;
6. The State Treasurer's Investment pool (STAR Ohio) ;
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed 25% of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt instruments rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

At fiscal year end, the School District had \$1,285 in undeposited cash on hand which is included on the balance sheet of the School District as part of "Equity in Pooled Cash and Cash Equivalents".

**MARION CITY SCHOOL DISTRICT  
MARION COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3. "Deposits With Financial Institutions, Investments (Including Repurchased Agreements), and Reverse Repurchase Agreements.

**Deposits** At fiscal year end, the carrying amount of the School's deposits was \$5,326,104 and the bank balance was \$6,501,578. Of the bank balance:

1. \$400,000 was covered by federal depository insurance; and
2. \$6,101,578 was uninsured and uncollateralized as defined by GASB. Although it was secured by collateral held by third party trustees, pursuant to section 135.181 Ohio Revised Code, in collateralized pools securing all public funds on deposit, these securities are not held in the name of the District. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the District to a successful claim by the FDIC.

Collateral is required for demand deposits and certificates of deposit in excess of all deposits covered by federal depository insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies, obligations of the State of Ohio and its municipalities, and obligations of the other states. Obligations pledged to secure deposits must be delivered to a bank other than the institution in which the deposit is made. Written custodial agreements are required.

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

|  | <u>Carrying<br/>Value</u> |
|--|---------------------------|
| <b><u>Category 2:</u></b>                    |                           |
| U.S. Government Securities                   | \$10,442,940              |
| Repurchased Agreements                       | 3,478,000                 |
| <br>   |                           |
| <b><u>Not Subject to Categorization:</u></b> |                           |
| STAR OHIO                                    | 3,346,228                 |
| Mutual Funds                                 | <u>5,414,174</u>          |
| Total Investments                            | <u>\$22,681,342</u>       |

The classification of cash and cash equivalents on the combined balance sheet is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting".

**MARION CITY SCHOOL DISTRICT  
MARION COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

A reconciliation between the classifications of pooled cash and cash equivalents and investments on the Combined Balance Sheet (per GASB Statement No. 9) and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

|                         | <b>Cash and Cash<br/>Equivalents/Deposits</b> | <b>Investments</b>   |
|-------------------------|---|----------------------|
| GASB Statement 9        | \$17,566,157                                  | \$10,442,940         |
| Cash on Hand            | (1,285)                                       |                      |
| Bond and Coupon Account | (366)   |                      |
| Mutual Funds            | (5,414,174)                                   | 5,414,174            |
| STAROHIO                | (3,346,228)                                   | 3,346,228            |
| Repurchase Agreements   | <u>(3,478,000)</u>                            | <u>3,478,000</u>     |
| GASB Statement 3        | <u>\$ 5,326,104</u>                           | <u>\$ 22,681,342</u> |

**NOTE 7 -- PROPERTY TAXES**

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

Property taxes include amounts levied against all real, public utility, and tangible personal (used in business) property located in the School District. Real and public utility property tax revenues received in calendar year 2003 represent the collection of calendar year 2002 taxes. Real property taxes for 2003 were levied after April 1, 2002, on the assessed values as of January 1, 2002, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility real and tangible personal property taxes for 2003 were levied after April 1, 2002, on the assessed values as of December 31, 2001, the lien date. Public utility real property is assessed at 35 percent of true value; tangible personal property is currently assessed at varying percentages of true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

Tangible personal property tax revenues received in calendar year 2003 (other than public utility property) represent the collection of calendar year 2003 taxes. Tangible personal property taxes for 2003 were levied after April 1, 2002, on the value as of December 31, 2002. Tangible personal property is currently assessed at 25 percent of true value for capital assets and 24 percent of true value for inventory. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District receives property taxes from Marion County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2003, are available to finance fiscal year 2003 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

**MARION CITY SCHOOL DISTRICT  
MARION COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

Accrued property taxes receivable represents delinquent taxes outstanding and real property, public utility property, and tangible personal property taxes which were measurable as of June 30, 2003 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, amounts to be received during the available period are not subject to reasonable estimation at June 30, nor were they levied to finance fiscal year 2003 operations. For the governmental fund financial statements, the receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance was recognized as revenue. On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue while on a modified accrual basis the revenue is deferred.

The amount available as an advance at June 30, 2003, was \$3,635,069 in the General Fund, \$389,992 in the Debt Service Fund and \$50,906 in the Classroom Facilities Maintenance Special Revenue 034 Fund. The assessed values upon which the fiscal year 2003 taxes were collected are:

|  | <b>2002 First</b>       |                       | <b>2003 Second</b>      |                       |
|--|-------------------------|-----------------------|-------------------------|-----------------------|
|  | <b>Half Collections</b> |                       | <b>Half Collections</b> |                       |
|  | <b><u>Amount</u></b>    | <b><u>Percent</u></b> | <b><u>Amount</u></b>    | <b><u>Percent</u></b> |
| Agricultural/Residential and Public Utility    | \$237,486,330           | 63%                   | \$234,268,520           | 63%                   |
| Commercial & Industrial Real                   | 65,462,020              | 17%                   | 65,527,110              | 18%                   |
| Tangible Public Utility                        | 21,385,220              | 6%                    | 23,683,490              | 7%                    |
| Tangible Personal Property                     | <u>53,007,480</u>       | <u>14%</u>            | <u>48,741,881</u>       | <u>12%</u>            |
| Total Assessed Value                           | <u>\$377,341,050</u>    | 100%                  | <u>\$372,221,001</u>    | 100%                  |
| <br>Tax rate per \$1,000 of assessed valuation | <br>\$44.37             |                       | <br>\$48.93             |                       |

**NOTE 8 -- RECEIVABLES**

Receivables at June 30, 2003, consisted of taxes, accounts (billings for user charged services), and intergovernmental receivables arising from grants, entitlement and shared revenues. All receivables are considered collectable in full. A summary of the principal items of receivables follows:

| <b><u>Receivables</u></b>         | <b><u>Amount</u></b> |
|-----------------------------------|----------------------|
| <u>Governmental Activities:</u>   |                      |
| <u>Property Taxes Receivable:</u> |                      |
| General:                          |                      |
| Current                           | \$10,395,733         |
| Delinquent                        | <u>1,128,670</u>     |
| Total General Fund                | 11,524,403           |
| <br>Debt Service:                 |                      |
| Current                           | 1,045,772            |
| Delinquent                        | <u>121,740</u>       |
| Total Debt Service                | 1,167,512            |



**MARION CITY SCHOOL DISTRICT  
MARION COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

---

|   |               |
|---|---------------|
| Classroom Facilities Maintenance 034 Special Revenue: |               |
| Current   | 157,213       |
| Delinquent  | <u>15,601</u> |
| Total Classroom Facilities Maintenance                | 172,814       |

Total Property Taxes Receivable 12,864,729

Accounts Receivable:

|                               |              |
|-------------------------------|--------------|
| General                       | 10,051       |
| Principal Fund 018            | 5,278        |
| Staff Development Program 019 | <u>3,772</u> |

Total Accounts Receivable 19,101

Intergovernmental Receivable:

|  |           |
|--|-----------|
| General                                  | 101,455   |
| Classroom Facilities Capital Project 010 | 9,892,593 |

Special Revenue:

|                               |               |
|-------------------------------|---------------|
| Title VI-B                    | 137,506       |
| Limited English Migrant Grant | 20,842        |
| Title I                       | 445,413       |
| Title IV                      | 10,607        |
| Title VI                      | 31,007        |
| Preschool Grant               | 1,293         |
| Comprehensive School Reform   | 159,376       |
| Ohio Schoolnet ATIP           | <u>26,869</u> |
| Total Special Revenue         | 832,913       |

Total Intergovernmental Receivable \$10,826,961

Business-Type Activities:

|                                  |       |
|----------------------------------|-------|
| Accounts Receivable Food Service | 1,090 |
|----------------------------------|-------|

**MARION CITY SCHOOL DISTRICT  
MARION COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

**NOTE 9 -- CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2003, was as follows:

**Non-Depreciable Capital Assets:**

|                                      |                     |                    |                       |                     |
|--------------------------------------|---------------------|--------------------|-----------------------|---------------------|
| Land                                 | \$6,592,711         | \$18,000           | \$0                   | \$6,610,711         |
| Construction In Progress             | 22,489,071          | 4,390,342          | (22,489,071)          | 4,390,342           |
| <b>Total Non-Depreciable Assets:</b> | <u>\$29,081,782</u> | <u>\$4,408,342</u> | <u>(\$22,489,071)</u> | <u>\$11,001,053</u> |

**Depreciable Capital Assets:**

|                              |                     |                     |            |                     |
|------------------------------|---------------------|---------------------|------------|---------------------|
| Buildings and Improvements   | 17,657,914          | 50,345,421          | 0          | 68,003,335          |
| Furniture and Equipment      | 8,347,877           | 1,363,717           | 0          | 9,711,594           |
| School Buses and Vehicles    | 926,282             | 0                   | 0          | 926,282             |
| <b>Total Historical Cost</b> | <u>\$26,932,073</u> | <u>\$51,709,138</u> | <u>\$0</u> | <u>\$78,641,211</u> |

**Less: Accumulated Depreciation:**

|                                       |                       |                    |            |                       |
|---------------------------------------|-----------------------|--------------------|------------|-----------------------|
| Buildings and Improvements            | (12,929,753)          | (59,038)           | 0          | (12,988,791)          |
| Furniture and Equipment               | (3,918,121)           | (716,499)          | 0          | (4,634,620)           |
| School Buses and Vehicles             | (554,826)             | (58,786)           | 0          | (613,612)             |
| <b>Total Accumulated Depreciation</b> | <u>(\$17,402,700)</u> | <u>(\$834,323)</u> | <u>\$0</u> | <u>(\$18,237,023)</u> |

|                                      |                     |                     |                       |                     |
|--------------------------------------|---------------------|---------------------|-----------------------|---------------------|
| <b>Total Depreciable Assets, Net</b> | <u>\$9,529,373</u>  | <u>\$50,874,815</u> | <u>\$0</u>            | <u>\$60,404,188</u> |
| <b>Total Capital Assets - Net</b>    | <u>\$38,611,155</u> | <u>\$55,283,157</u> | <u>(\$22,489,071)</u> | <u>\$71,405,241</u> |

| <b>Business-Type Activities:</b>      | <u>Capital Assets<br/>6/30/02</u> | <u>Additions</u> | <u>Disposals</u> | <u>Capital Assets<br/>6/30/03</u> |
|---------------------------------------|-----------------------------------|------------------|------------------|-----------------------------------|
| <b>Depreciable Capital Assets:</b>    |                                   |                  |                  |                                   |
| Furniture & Equipment                 | \$277,539                         | \$3,402          | \$0              | \$280,941                         |
| Less: Accumulated Depreciation        | (226,515)                         | (1,329)          | 0                | (227,844)                         |
| <b>Total Depreciable Assets - Net</b> | <u>\$51,024</u>                   | <u>\$2,073</u>   | <u>\$0</u>       | <u>\$53,097</u>                   |

**MARION CITY SCHOOL DISTRICT  
MARION COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

\*Depreciation expense was charged to governmental functions as follows:

|  |  |                   |
|--|--|-------------------|
| Instruction:                                     |  |                   |
| Regular Instruction                              |  | \$503,666         |
| Special Instruction                              |  | 15,440            |
| Vocational Instruction                           |  | 433               |
| Adult Education                                  |  | 6,547             |
| Support Service:                                 |  |                   |
| Pupils   |  | 10,237            |
| Instructional Staff                              |  | 51,494            |
| Board  |  | 6,300             |
| Administration                                   |  | 56,512            |
| Fiscal Services                                  |  | 12,798            |
| Business   |  | 250               |
| Operation and Maintenance of Plant               |  | 29,629            |
| Transportation                                   |  | 53,564            |
| Extracurricular                                  |  | 14,413            |
| Non-Instructional                                |  | 2,845             |
| Facilities Acquisition and Construction Services |  | <u>70,195</u>     |
| Total Depreciation Expense                       |  | <u>\$ 834,323</u> |

**NOTE 10 -- INTERFUND RECEIVABLE/INTERFUND PAYABLE**

Interfund balances at June 30, 2003, consist of the following individual fund receivables and payables:

| <u>Fund:</u>                  | <u>Receivable</u> | <u>Payable</u>    |
|-------------------------------|-------------------|-------------------|
| General                       | \$ 327,670        | \$ -              |
| Special Revenue Funds:        |                   |                   |
| Miscellaneous State Grants    | -                 | 5,729             |
| Title VI-B                    | -                 | 31,946            |
| Limited English Migrant Grant | -                 | 20,841            |
| Title I                       | -                 | 48,111            |
| Title VI                      | -                 | 6,281             |
| Drug Free School Grant        | -                 | 3,339             |
| Early Childhood (IDEA)        | -                 | 1,173             |
| Comprehensive School Reform   | -                 | 62,879            |
| Miscellaneous Federal Grants  | <u>-</u>          | <u>16,089</u>     |
|                               | -                 | 196,388           |
| Food Service                  |                   | 131,282           |
| TOTALS                        | <u>\$ 327,670</u> | <u>\$ 327,670</u> |

**MARION CITY SCHOOL DISTRICT  
MARION COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

---

**NOTE 11 -- INTERFUND TRANSFERS**

During fiscal year 2003, the General Fund made transfers to the other governmental funds, in the amount of \$60,000. By Board resolution, these monies are transferred annually from the General Fund to the Athletics special revenue fund. The General Fund also made transfers, in the amount of \$97,132, to the Food Service enterprise fund which were used to support the operation of food service activities.

**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, injuries to employees and natural disasters. During fiscal year 2003, the School District purchased from Nationwide Insurance Company (through the Ohio School Boards' Association) general liability insurance, which carried a \$2 million per occurrence/\$4 million annual aggregate limit.

Fleet and property/casualty insurance are purchased through commercial carriers and traditionally funded, as are all benefit plans offered to employees.

Settled claims have not exceeded this commercial coverage in any of the past three years, and there has been no significant reduction in insurance coverage from last year.

The School District is a member of the OSBA Worker's Compensation Group Rating Program established in April 1991. The program was created by the Ohio Schools Boards Association as a result of the Workers' Compensation group rating plan as defined in 4123.29, Ohio Revised Code. The group rating plan will allow school districts to group together to potentially achieve a lower premium rate than they may otherwise be able to acquire as individual employers.

**NOTE 13 -- DEFINED BENEFIT PENSION PLANS**

**A. School Employees Retirement System**

The School District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer public employee retirement system administered by the School Employees Retirement Board. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215, or by calling (614) 222-5853.

Plan members are required to contribute 9 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll; 8.17 percent was the portion used to fund pension obligations for the fiscal year 2003. For fiscal year 2002, 5.46 percent of annual covered payroll was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ending June 30, 2003, 2002, and 2001, were \$329,170, \$231,295, and \$683,300 respectively; 39 percent has been contributed for fiscal year 2003, and 100 percent for fiscal years 2002 and 2001. The unpaid contribution for fiscal year 2003 is \$201,374.

**MARION CITY SCHOOL DISTRICT  
MARION COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

---

**B. State Teachers Retirement System**

The School District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS issues a stand alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System of Ohio, 275 East Broad Street, Columbus, Ohio, 43215-3771 or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2003, plan members were required to contribute 9.3 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2002, the portion used to fund pension obligations was 9.5 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations for the fiscal years ending June 30, 2003, 2002, and 2001 were \$2,959,226, \$2,179,614, and \$3,259,795, respectively; 83 percent has been contributed for fiscal year 2003, and 100 percent for fiscal years 2002 and 2001. \$490,398 represents the unpaid contribution for fiscal year 2003.

**MARION CITY SCHOOL DISTRICT  
MARION COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

---

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2000 four members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid.

**NOTE 14 -- POSTEMPLOYMENT BENEFITS**

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

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year 2003, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$227,633 for the fiscal year 2003.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$3.011 billion at June 30, 2002 (the latest information available). For the fiscal year ended June 30, 2002, net health care costs paid by STRS were \$354,697,000 and STRS had 105,300 eligible benefit recipients.

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

For this fiscal year ending June 30, 2002, employer contributions to fund health care benefits were 5.83% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2003, the minimum pay had been established at \$14,500. For the School District, the amount to fund health care benefits, including the surcharge, was \$280,729 for the fiscal year 2003.

The surcharge rate added to the unallocated portion of the 14 percent employer contribution rate provides for maintenance of the asset target level for the health care fund. Health care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care at June 30, 2002 were \$182,946,777 and the target level was \$274.4 million. At June 30, 2002, SERS's net assets available for payment of health care benefits was \$335.2 million. SERS has approximately 50,000 participants currently receiving health care benefits.

**MARION CITY SCHOOL DISTRICT  
MARION COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

**NOTE 15 -- LONG-TERM LIABILITIES**

The changes in the School District's long-term obligations during the fiscal year consist of the following:

|   | <b>Principal<br/>Outstanding<br/><u>6/30/02</u></b> | <b><u>Additions</u></b> | <b><u>Reductions</u></b> | <b>Principal<br/>Outstanding<br/><u>6/30/03</u></b> | <b>Amounts<br/>Due In<br/><u>One Year</u></b> |
|---|---|-------------------------|--------------------------|---|---|
| <b>Governmental Activities</b>  |   |                         |                          |   |   |
| School Facilities Construction<br>& Improvement Bonds<br>2000, 4.4 to 5.36% Matures<br>12/01/22 | \$15,320,000  | -                       | \$330,000                | \$14,990,000  | \$355,000                                     |
| Bus Notes<br>2.75%; Matures<br>11/15/2005   | -   | 132,413                 | 24,900                   | 107,513   | 43,624  |
| Compensated Absences  | 2,851,214   | 338,261                 | -                        | 3,189,475   | 475,423                                       |
| Capital Lease Payable   | <u>26,022</u>                                       | <u>-</u>                | <u>7,047</u>             | <u>18,975</u>                                       | <u>7,909</u>                                  |
| Total Governmental Activities<br>Long-Term Liabilities  | <u>18,197,236</u>                                   | <u>470,674</u>          | <u>361,947</u>           | <u>18,305,963</u>                                   | <u>881,956</u>                                |
| <b>Business-Type Activities</b>   |   |                         |                          |   |   |
| Compensated Absences Payable  | <u>81,253</u>                                       | <u>4,729</u>            | <u>-</u>                 | <u>85,982</u>                                       | <u>7,106</u>                                  |
| Total Business-Type Activities  | <u>\$81,253</u>                                     | <u>\$4,729</u>          | <u>\$ -</u>              | <u>85,982</u>                                       | <u>7,106</u>                                  |
| Total Long Term Liabilities   |   |                         |                          | <u>\$18,391,945</u>                                 | <u>\$889,062</u>                              |

Compensated absences will be paid from the fund from which the employees' salaries are paid. Capital leases will be paid from the General Fund.

During the 2001 fiscal year, the School District issued General Obligation Bonds to provide funds for constructing a high school and three elementary schools; renovating, remodeling and improving existing school buildings and facilities, including converting the existing middle school to an elementary school, improving access for the disabled and health and safety upgrades; furnishing and equipping the same, including technology for classroom instruction; and landscaping and improving the sites thereof. The General Obligation Bonds are a general obligation of the School District that contains a pledge of the full faith and credit of the School District. Payments of principal and interest relating to the General Obligation Bonds are recorded as expenditures in the Debt Service Fund. The source of payment is derived from a current 3.69 mill bonded debt tax levy. In conjunction with the 3.69 mills which supports the General Obligation Bonds, the School District also passed in fiscal year 2000 a .5 mill levy to ultimately fund the maintenance costs of the new facility. Tax revenue from this levy has been reported in the Classroom Facilities Maintenance Fund.

**MARION CITY SCHOOL DISTRICT  
MARION COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

Principal and Interest requirements to retire the School District's General Obligation Bonds outstanding at June 30, 2003, are as follows:

| <u>Fiscal Year Ending</u> | <u>Principal</u>    | <u>Interest</u>     | <u>Total</u>        |
|---------------------------|---------------------|---------------------|---------------------|
| 2004                      | \$355,000           | \$822,876           | \$1,177,876         |
| 2005                      | 380,000             | 806,546             | 1,186,546           |
| 2006                      | 470,000             | 788,876             | 1,258,876           |
| 2007                      | 505,000             | 766,786             | 1,271,786           |
| 2008                      | 540,000             | 742,799             | 1,282,799           |
| 2009-2013                 | 3,120,000           | 3,284,443           | 6,404,443           |
| 2014-2018                 | 4,165,000           | 2,235,926           | 6,400,926           |
| 2019-2023                 | <u>5,455,000</u>    | <u>945,937</u>      | <u>6,400,937</u>    |
| Totals                    | <u>\$14,990,000</u> | <u>\$10,394,189</u> | <u>\$25,384,189</u> |

The Ohio Revised Code provides that voted net general obligation debt of the School District shall never exceed 9% of the total assessed valuation of the School District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the School District.

The effects of these debt limitations at June 30, 2003 are a voted debt margin of \$18,842,660 (including available funds of \$440,283) and an unvoted debt margin of \$372,221.

**NOTE 16 -- CAPITALIZED LEASES - LESSEE DISCLOSURE**

The School District has entered into capitalized leases for the acquisition of reproduction equipment, food service equipment and school buses. Each lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13 "Accounting for Leases" which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee at the conclusion of the lease term. Capital lease payments have been reclassified and are reflected as debt service expenditures in the Statement of Revenues, Expenditures and Changes in Fund Balances for the Governmental Funds and as function expenditures on the budgetary basis. Capital assets acquired by lease have been capitalized in a amount equal to the present value of the future minimum lease payments as of the date of their inception. A liability was recorded in the Governmental Activities for \$18,975. Principal payments in the 2003 fiscal year totaled \$7,047. This amount is reflected as "Debt Service Principal" in the General Fund.



**MARION CITY SCHOOL DISTRICT  
MARION COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the future minimum lease payments as of June 30, 2003:

| <u>June 30<br/>Year Ending</u>                   | <u>Capital Lease<br/>Liability</u> |
|--|------------------------------------|
| 2004   | \$ 9,683                           |
| 2005   | 9,684                              |
| 2006   | <u>2,227</u>                       |
| Total Minimum Lease Payments                     | 21,594                             |
| Less: Amount Representing Interest               | <u>(2,619)</u>                     |
| Present Value of Future Minimum<br>Lease Payment | <u>\$18,975</u>                    |

**NOTE 17 -- CONTINGENT LIABILITIES**

**A. GRANTS**

The School District receives significant financial assistance from numerous 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 effect on the overall financial position of the School District at June 30, 2003.

**B. LITIGATION**

The School District is involved in no material litigation as either plaintiff or defendant.

**C. SCHOOL FUNDING DECISION**

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding plan is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient...". The School District currently is unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

**NOTE 18 -- SET ASIDES**

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

**MARION CITY SCHOOL DISTRICT  
MARION COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

The following cash basis information identifies the changes in the fund balance reserves for textbooks, and capital improvements:

|                                      | <u>Capital<br/>Maintenance</u> | <u>Textbook</u>   |
|--------------------------------------|--------------------------------|-------------------|
| Balance 7/1/02                       | \$ -                           | \$ -              |
| Required Set-Aside                   | 764,250                        | 764,250           |
| Current Year Offset                  | (1,080,244)                    | -                 |
| Qualifying                           |                                |                   |
| Expenditures                         | -                              | (334,765)         |
| Total                                | <u>\$ (315,994)</u>            | <u>\$ 429,485</u> |
| Balance Carried Forward to FY 2004   | <u>\$ (315,994)</u>            | <u>\$ 429,485</u> |
| Total Restricted Assets-General Fund | <u>\$ -</u>                    | <u>\$ 429,485</u> |

**NOTE 19 – MARION CITY SCHOOLS DIGITAL ACADEMY**

As indicated in Note 1 to the basic financial statements, the following disclosures are made on behalf of the Marion City Schools Digital Academy.

The Marion City Schools Digital Academy (the Academy) prepares its financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental nonprofit organizations. The preparation of the financial statements requires the use of estimates made by management.

**A. CASH AND CASH EQUIVALENTS**

Cash held by the Academy is reflected as “Cash and Cash Equivalents” on the statements of net assets. Investments with an original maturity of three months or less at the time they are purchased are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months are reported as investments. During fiscal year 2003, the Academy had no investments. At fiscal year end, the carrying amount and bank balance of the Academy’s deposits was \$91,171.

**B. RECEIVABLES**

Receivables at June 30, 2003, consisted of intergovernmental (e.g. federal grant) receivables in the amount of \$105,000. All intergovernmental receivables are considered collectible in full, due to the stable condition and current year guarantee of federal funds.

**MARION CITY SCHOOL DISTRICT  
MARION COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

**NOTE 20 – CONTRACTUAL COMMITMENTS**

The School District had the following outstanding contractual commitments as of June 30, 2003:

| <u>Company</u>                    | <u>Purpose</u>              | <u>Amount<br/>Remaining<br/>on Contract</u> |
|-----------------------------------|-----------------------------|---|
| 2K General, Inc.                  | New athletic fields         | \$64,530                                    |
| Accurate Electric Construction    | Electrical work             | 1,436,792                                   |
| Allied Environmental Services     | Asbestos abatement          | 489,321                                     |
| Alvada Construction               | General trades              | 2,767,680                                   |
| AMPAM Commercial Midwest          | Fire protection             | 267,135                                     |
| Carl's Plumbing & Heating         | Plumbing                    | 526,749                                     |
| Central Fire Protection           | Fire protection             | 18,079                                      |
| CINFAB, Inc.                      | Plumbing                    | 139,232                                     |
| Corna/Kokosing Construction       | General trades & masonry    | 228,194                                     |
| Encompass Electrical Technologies | Electrical work             | 635,758                                     |
| General Temperature Control       | HVAC & plumbing             | 101,901                                     |
| Ludwig Zahn Construction Co.      | General trades              | 867,785                                     |
| Mark Schaffer Excavation          | Site work                   | 38,807                                      |
| Mosser Construction, Inc.         | General trades              | 181,599                                     |
| Pete Miller, Inc.<br>3,200,338    | HVAC                        |   |
| Quality Masonry Company, Inc.     | Masonry restoration         | 263,100                                     |
| Rhodes Heating & Air<br>1,668,208 | Plumbing, electrical & HVAC |   |
| Romanoff Group                    | Electrical work             | 582,500                                     |
| Settle Muter Electric             | Electrical work             | 503,321                                     |
| The Spieker Company               | General trades              | 4,285,511                                   |
| Vaughn Industries                 | Electrical work             | 1,294,181                                   |
| Vulcan Enterprises, Inc.          | Fire protection             | <u>269,114</u>                              |
| <b>Total</b>                      |                             | <b><u>\$19,829,835</u></b>                  |

**NOTE 21 -- SUBSEQUENT EVENTS**

On July 28, 2003, the Board of Education awarded a contract to Vaughn Industries, Inc in the amount of \$699,100 for renovations and additions to Harding High School to become Ulysses S. Grant Middle School.

On August 25, 2003, the Board of Education approved the issuance of notes in anticipation of bonds in the amount of \$373,000 for constructing tennis courts, outdoor running track and other related athletic facilities. The interest rate is not to exceed 5% per annum.

On December 9, 2003, the Board of Education approved an agreement between the Marion Educational Association and the Marion City Board of Education.

**THIS PAGE INTENTIONALLY LEFT BLANK**

**MARION CITY SCHOOL DISTRICT  
MARION COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FOR THE YEAR ENDING JUNE 30, 2003**

| Federal Grantor/<br>Pass Through Grantor<br>Program Title                                  | Pass Through<br>Entity<br>Number | Federal<br>CFDA<br>Number | Receipts           | Non-Cash<br>Receipts | Disbursements      | Non-Cash<br>Disbursements |
|--|----------------------------------|---------------------------|--------------------|----------------------|--------------------|---------------------------|
| <b><u>U.S DEPARTMENT OF AGRICULTURE</u></b>  |                                  |                           |                    |                      |                    |                           |
| <i>Passed Through the Ohio Department of Education</i>                                     |                                  |                           |                    |                      |                    |                           |
| Child Nutrition Cluster:   |                                  |                           |                    |                      |                    |                           |
| Food Distribution Program  | N/A                              | 10.550                    | -                  | \$120,707            | -                  | \$120,707                 |
| National School Breakfast Program  | 044339-05PU-02/03                | 10.553                    | \$154,580          | -                    | \$154,580          | -                         |
| National School Lunch Program  | 044339-LLP1-02/03                | 10.555                    | 910,115            | -                    | 910,115            | -                         |
|  | 044339-LLP4-02/03                |                           |                    |                      |                    |                           |
| Summer Food Service Program for Children   | 044339-23PU-02/03                | 10.559                    | 66,338             | -                    | 50,844             | -                         |
|  | 044339-24PU-02                   |                           |                    |                      |                    |                           |
| <b>Total U.S. Department of Agriculture - Child Nutrition Cluster</b>                      |                                  |                           | <b>1,131,033</b>   | <b>120,707</b>       | <b>1,115,539</b>   | <b>120,707</b>            |
| <b><u>U.S. DEPARTMENT OF EDUCATION</u></b>   |                                  |                           |                    |                      |                    |                           |
| <i>Passed Through the Ohio Department of Education</i>                                     |                                  |                           |                    |                      |                    |                           |
| Special Education Cluster:   |                                  |                           |                    |                      |                    |                           |
| Special Education Grants to States   | 044339-6BSF-01/02/03             | 84.027                    | 616,949            | -                    | 633,061            | -                         |
| Special Education Preschool Grants   | 044339-PGS1-02/03                | 84.173                    | 45,184             | -                    | 36,306             | -                         |
| Total Special Education Cluster  |                                  |                           | 662,133            | -                    | 669,367            | -                         |
| Adult Education - State Grant Programs   | 044339-ABS1-02/03                | 84.002                    | 97,737             | -                    | 97,737             | -                         |
| Title I Grants to Local Educational Agencies   | 044339-C1S1-02/03                | 84.010                    | 1,286,790          | -                    | 1,272,985          | -                         |
| Safe and Drug-Free Schools and Communities   | 044339-DRS1-02/03                | 84.186                    | 48,094             | -                    | 54,140             | -                         |
| Bilingual Education Support Services   | 044339-T3S1-03                   | 84.194                    | -                  | -                    | 10,208             | -                         |
| Goals 2000 State and Local Educational Systemic Improvement Grant                          | 044339-G2S1-01/02                | 84.276                    | -                  | -                    | 55,298             | -                         |
| Eisenhower Professional Development State Grant  | 044339-MSS1-01/02                | 84.281                    | -                  | -                    | 12,500             | -                         |
| Innovative Educational Program Strategies  | 044339-C2S1-01/02/03             | 84.298                    | 14,586             | -                    | 15,382             | -                         |
| Technology Literacy Challenge Fund Grant   | 044339-TJS1-03                   | 84.318                    | 26,019             | -                    | 23,250             | -                         |
| Comprehensive School Reform Demonstration  | 044339-RFCC-03                   | 84.332                    | 17,765             | -                    | 77,628             | -                         |
| Class Size Reduction   | 044339-DRS1-02                   | 84.340                    | -                  | -                    | 47,612             | -                         |
| School Renovation Idea and Technology  | 044339-ATS3-02                   | 84.352                    | 47,916             | -                    | 58,425             | -                         |
| Improving Teacher Quality  | 044339-TRS1-03                   | 84.367                    | 258,574            | -                    | 260,903            | -                         |
| <b>Total U.S. Department of Education</b>  |                                  |                           | <b>2,459,614</b>   | <b>-</b>             | <b>2,655,435</b>   | <b>-</b>                  |
| <b><u>U.S. CORPORATION FOR NATIONAL AND COMMUNITY SERVICE</u></b>                          |                                  |                           |                    |                      |                    |                           |
| <i>Passed Through the Ohio Department of Education</i>                                     |                                  |                           |                    |                      |                    |                           |
| Learn and Serve America  | 044339-SVS2-03                   | 94.004                    | 3,000              | -                    | 48                 | -                         |
| <b>Total U.S. Corporation for National and Community Service</b>                           |                                  |                           | <b>3,000</b>       | <b>-</b>             | <b>48</b>          | <b>-</b>                  |
| <b><u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u></b>                                 |                                  |                           |                    |                      |                    |                           |
| <i>Passed through Ohio Department of Mental Retardation and Developmental Disabilities</i> |                                  |                           |                    |                      |                    |                           |
| Medical Assistance Program   | N/A                              | 93.778                    | 317,012            | -                    | 317,012            | -                         |
| <b>Total U.S. Department of Health and Human Services</b>                                  |                                  |                           | <b>317,012</b>     | <b>-</b>             | <b>317,012</b>     | <b>-</b>                  |
| <b>TOTAL FEDERAL AWARDS RECEIPTS AND EXPENDITURES</b>                                      |                                  |                           | <b>\$3,910,659</b> | <b>\$120,707</b>     | <b>\$4,088,034</b> | <b>\$120,707</b>          |

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

**MARION CITY SCHOOL DISTRICT  
MARION COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2003**

**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Schedule of Federal Awards Receipts and Expenditures (the Schedule) is a summary of the activity of the District's federal award programs. The Schedule has been prepared on the cash basis of accounting.

**NOTE 2 – FOOD DISTRIBUTION**

Nonmonetary assistance, such as food received from the U.S. Department of Agriculture, is reported in the Schedule at the fair market value of the commodities received and consumed. Cash receipts from the U.S. Department of Agriculture are commingled with state grants. It is assumed federal monies are expended first. At June 30, 2003, the District had no significant food commodities in inventory.



**Auditor of State  
Betty Montgomery**

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

Marion City School District  
Marion County  
910 East Church Street  
Marion, Ohio 43302

To the Board of Education:

We have audited the basic financial statements of the Marion City School District, Marion County, Ohio, (the District) as of and for the year ended June 30, 2003, and have issued our report thereon dated January 23, 2004, wherein we noted the District adopted Governmental Accounting Standards Board Statement No. 34. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards*, which is described in the accompanying schedule of findings as item 2003-001. We also noted certain immaterial instances of noncompliance that we have reported to management of the District in a separate letter dated January 23, 2004.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 2003-002 through 2003-004.

35 N. Fourth St. / Second Floor / Columbus, OH 43215  
Telephone: (614) 466-3402 (800) 443-9275 Fax: (614) 728-7199  
[www.auditor.state.oh.us](http://www.auditor.state.oh.us)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 2003-002 and 2003-003 to be material weaknesses. We also noted certain other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated January 23, 2004.

This report is intended solely for the information and use of the finance committee, management, the Board of Education, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

**Betty Montgomery**  
**Auditor of State**

January 23, 2004





## Auditor of State Betty Montgomery

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

Marion City School District  
Marion County  
910 East Church Street  
Marion, Ohio 43302

To the Board of Education:

#### Compliance

We have audited the compliance of the Marion City School District, Marion County, Ohio, (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2003. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. 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 that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings as item 2003-005. We also noted a certain instance of noncompliance that does not require inclusion in this report that we have reported to the management of District in a separate letter dated January 23, 2004.

35 N. Fourth St. / Second Floor / Columbus, OH 43215  
Telephone: (614) 466-3402 (800) 443-9275 Fax: (614) 728-7199  
[www.auditor.state.oh.us](http://www.auditor.state.oh.us)

### **Internal Control Over Compliance**

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted a certain matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the District's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. The reportable condition is described in the accompanying schedule of findings as item 2003-005.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness.

This report is intended for the information and use of the finance committee, management, the Board of Education, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



**Betty Montgomery**  
**Auditor of State**

January 23, 2004

**MARION CITY SCHOOL DISTRICT  
MARION COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A-133 § .505  
JUNE 30, 2003**

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

|                     |   |  |
|---------------------|---|--|
| <b>(d)(1)(i)</b>    | <b>Type of Financial Statement Opinion</b>  | Unqualified  |
| <b>(d)(1)(ii)</b>   | <b>Were there any material control weakness conditions reported at the financial statement level (GAGAS)?</b>         | Yes  |
| <b>(d)(1)(ii)</b>   | <b>Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?</b> | Yes  |
| <b>(d)(1)(iii)</b>  | <b>Was there any reported material noncompliance at the financial statement level (GAGAS)?</b>                        | Yes  |
| <b>(d)(1)(iv)</b>   | <b>Were there any material internal control weakness conditions reported for major federal programs?</b>              | No   |
| <b>(d)(1)(iv)</b>   | <b>Were there any other reportable internal control weakness conditions reported for major federal programs?</b>      | Yes  |
| <b>(d)(1)(v)</b>    | <b>Type of Major Programs' Compliance Opinion</b>   | Unqualified  |
| <b>(d)(1)(vi)</b>   | <b>Are there any reportable findings under § .510?</b>  | Yes  |
| <b>(d)(1)(vii)</b>  | <b>Major Programs (list):</b>   | <p>Child Nutrition Cluster<br/> CFDA #10.550 – Food Distribution Program<br/> CFDA #10.553 – School Breakfast Program<br/> CFDA #10.555 – National School Lunch Program<br/> CFDA #10.559 – Summer Food Service Program for Children</p> <p>Special Education Cluster<br/> CFDA #84.027 – Special Education Grants to States<br/> CFDA #84.173 – Special Education Preschool Grants</p> <p>CFDA #93.778 – Medical Assistance Program</p> |
| <b>(d)(1)(viii)</b> | <b>Dollar Threshold: Type A/B Programs</b>  | Type A: > \$ 300,000<br>Type B: all others   |
| <b>(d)(1)(ix)</b>   | <b>Low Risk Auditee?</b>  | No   |

**MARION CITY SCHOOL DISTRICT  
MARION COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A-133 § .505  
JUNE 30, 2003  
(Continued)**

|   |
|---|
| <b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS<br/>REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b> |
|---|

|                       |          |
|-----------------------|----------|
| <b>Finding Number</b> | 2003-001 |
|-----------------------|----------|

**Appropriations Exceed Estimated Resources**

Ohio Rev. Code Section 5705.39 states that the total appropriation from each fund shall not exceed the total amount of estimated revenue available for expenditure therefrom, as certified by the County Budget Commission.

At June 30, 2003, appropriations exceeded total estimated resources in the following funds:

| Fund  | Estimated Resources | Appropriations | Variance    |
|---|---------------------|----------------|-------------|
| Tech Equity                                       | \$ 138              | \$ 62,906      | \$ (62,768) |
| Food Service                                      | 1,852,873           | 1,896,268      | (43,395)    |
| Reading Recovery                                  | 37,004              | 60,181         | (23,177)    |
| Auxiliary Service                                 | 39,298              | 160,047        | (120,749)   |
| DPIA  | 52                  | 705,913        | (705,861)   |
| Miscellaneous State Grants                        | 147,073             | 159,654        | (12,581)    |
| ABLE Grant  | 124,033             | 175,322        | (51,289)    |
| Title VI-B  | 165,509             | 616,949        | (451,440)   |
| Title I   | 251,352             | 1,383,504      | (1,132,152) |
| Title VI  | 8,014               | 22,599         | (14,585)    |
| Drug Free Schools                                 | 27,332              | 49,591         | (22,259)    |
| Preschool Grant                                   | 40,470              | 45,461         | (4,991)     |
| Comprehensive School Reform/Title VI-R/Title II-A | 131,034             | 271,170        | (140,136)   |
| Miscellaneous Federal Grants                      | 84,795              | 118,071        | (33,276)    |

We recommend the District closely monitor its appropriations in respect to its estimated resources in order to ensure appropriations do not exceed total estimated resources in each fund.

**MARION CITY SCHOOL DISTRICT  
MARION COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A-133 § .505  
JUNE 30, 2003  
(Continued)**

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

|                       |          |
|-----------------------|----------|
| <b>Finding Number</b> | 2003-002 |
|-----------------------|----------|

**Food Service Receipts**

The District does not maintain complete and accurate records to ensure completeness of food service receipts. Cash registers utilized by four schools within the District provide daily tapes, which are sufficient to ensure completeness of daily receipts. The remaining eleven schools utilize tally sheets which list the individual student names. Whether students at these schools pre-pay for lunches or pay on the day they buy lunch, the cashiers make the same mark next to the child's name. As a result, management is unable to determine which students actually paid on a specific day. At the end of the day, cashiers simply count the money in their money box; they are unable to compare the money collected to the number of students who bought lunch for the day to ensure completeness of the revenue. Without procedures in place to ensure the completeness of food service revenue, possible errors or irregularities may occur and go undetected by management.

We recommend the District establish appropriate internal control procedures to ensure the completeness of food service revenue. The District may consider utilizing cash registers at more of the school buildings, or maintain tally sheets which identify when students pay for their lunch so that the tally sheets can be reconciled to the daily collections.

|                       |          |
|-----------------------|----------|
| <b>Finding Number</b> | 2003-003 |
|-----------------------|----------|

**Capital Asset Records**

Proper tracking of capital asset additions and disposals helps to prevent misappropriation of capital assets and facilitates accurate financial reporting. Currently, the District has no procedures in place to track capital asset additions and disposals, and the District's capital asset inventory is not an accurate reflection of actual capital assets owned by the District.

We recommend the District update its capital asset system to reflect current inventory and implement procedures to track capital asset additions and disposals timely. Furthermore, we recommend the District flag invoices which qualify as capital asset additions, so that those purchases can be added to the capital asset inventory. The District should also require building principals or other responsible officials to approve capital asset disposal forms which would assist in tracking asset disposals. Finally, we recommend the District take a periodic physical inventory of capital assets and compare the physical inventory to the capital assets on the capital asset system to ensure the capital asset system is accurate.

**MARION CITY SCHOOL DISTRICT  
MARION COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A-133 § .505  
JUNE 30, 2003  
(Continued)**

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

|                       |          |
|-----------------------|----------|
| <b>Finding Number</b> | 2003-004 |
|-----------------------|----------|

**Budgetary Posting**

The District should post to its revenue ledger, the estimated revenue as certified by the County Budget Commission to allow for monitoring of budget versus actual revenue. As of June 30, 2003, the estimated revenue posted to the District's ledgers varied from the amounts certified by the County Budget Commission. Failure to accurately post budgeted amounts may result in the inability to effectively monitor budgeted versus actual receipts, and, as a result, may jeopardize the District's ability to detect possible errors or irregularities. Estimated revenue posted to the revenue ledger compared to estimated revenue certified by the County Budget Commission is as follows:

| Fund  | Estimated Revenue Posted | Estimated Revenue Certified by Budget Commission | Variance       |
|---|--------------------------|--|----------------|
| Debt Service                                      | (\$ 4,696,000)           | \$ 1,295,000                                     | (\$ 5,991,000) |
| Classroom Facilities (Capital Projects)           | 27,908,917               | 28,108,917                                       | (200,000)      |
| Tech Equity                                       | 62,768                   | 0  | 62,768         |
| Food Service                                      | 1,889,055                | 1,845,661  | 43,394         |
| Reading Recovery                                  | 64,844                   | 0  | 64,844         |
| Public School Support                             | 84,458                   | 121,558  | (37,100)       |
| Staff Development                                 | (15,597)                 | 22,403   | (38,000)       |
| Classroom Facilities (Special Revenue)            | 151,621                  | 194,000  | (42,379)       |
| Auxiliary Service                                 | 138,972                  | 17,738   | 121,234        |
| DPIA  | 705,861                  | 0  | 705,861        |
| Miscellaneous State Grants                        | 103,658                  | 87,709   | 15,949         |
| ABLE Grant  | 61,292                   | 101,858  | (40,566)       |
| Title VI-B  | 616,949                  | 165,509  | 451,440        |
| Title I   | 1,322,216                | 190,064  | 1,132,152      |
| Title VI  | 71,586                   | 0  | 71,586         |
| Drug Free Schools                                 | 48,094                   | 25,836   | 22,258         |
| Preschool Grant                                   | 13,308                   | 40,134   | (26,826)       |
| Continuous Improvement                            | 31,876                   | 0  | 31,876         |
| Comprehensive School Reform/Title VI-R/Title II-A | 240,913                  | 103,480  | 137,433        |
| Misc. Federal Grants                              | 76,934                   | 33,838   | 43,096         |

We recommend that the Treasurer accurately post to the revenue ledger estimated revenue as certified by the County Budget Commission.

**MARION CITY SCHOOL DISTRICT  
MARION COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A-133 § .505  
JUNE 30, 2003  
(Continued)**

**3. FINDING FOR FEDERAL AWARDS**

|                                    |   |
|------------------------------------|---|
| <b>Finding Number</b>              | 2003-005  |
| <b>CFDA Title and Number</b>       | Special Education Cluster – CFDA #84.027/84.173 |
| <b>Federal Award Number / Year</b> | 044339-6BSF-2002/2003<br>044339-PGS1-2002/2003  |
| <b>Federal Agency</b>              | United States Department of Education           |
| <b>Pass-Through Agency</b>         | Ohio Department of Education                    |

**Grant Reporting  
Reportable Condition/Material Noncompliance**

Ohio Department of Education Federal Fiscal Report Procedures require grant cash request forms to be accurately completed based on the District's accounting ledgers. These procedures also require a final expenditure report to be submitted for each project.

Grant Coordinators complete project cash request forms and final expenditure reports. The Treasurer does not compare the amounts on these reports to the accounting ledgers to ensure the accuracy of the reports before the reports are signed and submitted.

Expenditures for the fiscal year 2002 Special Education Grants to States project were reported accurately in total; however, failure to reconcile the final expenditure report to the underlying accounting ledgers resulted in expenditures being misstated between functions and object codes by as much as \$41,724. Additionally, for both the Special Education Grants to States and the Preschool Grant, expenditures on the project cash request forms were overstated as follows:

| Date of<br>Financial<br>Informatio | Grant                              | <b>Expenditures:</b>           |                              |                            |
|------------------------------------|------------------------------------|--------------------------------|------------------------------|----------------------------|
|                                    |                                    | Per Project<br>Cash<br>Request | Per<br>Accounting<br>Ledgers | Amount of<br>Overstatement |
| 3/6/03                             | Special Education Grants to States | 371,314                        | 316,861                      | 54,453                     |
| 5/5/03                             | Special Education Grants to States | 529,852                        | 499,835                      | 30,017                     |
| 1/9/03                             | Preschool Grant                    | 7,633                          | 4                            | 7,629                      |
| 2/4/03                             | Preschool Grant                    | 1,004                          | 4                            | 1,000                      |
| 5/5/03                             | Preschool Grant                    | 28,559                         | 17,404                       | 11,155                     |

We recommend the District adopt a policy whereby all project cash requests and final expenditure reports are submitted to the Treasurer for approval prior to the reports being submitted to the grantor/pass-through agency. Furthermore, we recommend the Treasurer reconcile all grant reports to the accounting ledgers and sign the reports to certify the accuracy of the amounts reported.

**MARION CITY SCHOOL DISTRICT  
MARION COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
OMB CIRCULAR A-133 § .505  
JUNE 30, 2003**

| Finding Number | Finding Summary  | Fully Corrected? | Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b>Explain:</b> |
|----------------|--|------------------|--|
| 2002-10651-001 | The District did not maintain complete and accurate records to ensure completeness of food service receipts.                           | No               | Not corrected; the finding has been included in the current audit report.  |
| 2002-10651-002 | The District did not competitively bid food service contracts, nor did it obtain suspension and debarment certifications from vendors. | Yes              | Fully corrected.   |
| 2002-10651-003 | Inaccurate records of commodity receipts, usage, balances,   | No               | Partially corrected; this finding has been included in the current audit management letter.                                      |
| 2002-10651-004 | The District did not accurately report free/reduced price lunches.   | Yes              | Fully corrected.   |
| 2002-10651-005 | Inaccurate grant reporting.  | No               | Not corrected; the finding has been included in the current audit report.  |





**Auditor of State  
Betty Montgomery**

88 East Broad Street  
P.O. Box 1140  
Columbus, Ohio 43216-1140

Telephone 614-466-4514  
800-282-0370

Facsimile 614-466-4490

**MARION CITY SCHOOL DISTRICT**

**MARION COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
MARCH 23, 2004**