



**Auditor of State
Betty Montgomery**

**MARION LOCAL SCHOOL DISTRICT
MERCER COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements – June 30, 2005:	
Government-Wide Financial Statements:	
Statement of Net Assets – Cash Basis - June 30, 2005.....	11
Statement of Activities – Cash Basis for fiscal year ended June 30, 2005.....	12
Fund Financial Statements:	
Statement of Cash Basis Assets and Fund Balances – Governmental Funds - June 30, 2005	14
Statement of Cash Receipts, Disbursements, and Changes In Cash Basis Fund Balances - Governmental Funds for fiscal year ended June 30, 2005	15
Statement of Cash Receipts, Disbursements, and Changes in Fund Balance Budget and Actual - General Fund For fiscal year ended June 30, 2005.....	16
Statement of Fund Net Assets – Cash Basis - Proprietary Funds June 30, 2005	17
Statement of Cash Receipts, Disbursements and Changes in Fund Net Assets – Cash Basis - Proprietary Funds For fiscal year ended June 30, 2005.....	18
Statement of Fiduciary Net Assets - Cash Basis - Fiduciary Funds June 30, 2005	19
Basic Financial Statements – June 30, 2004:	
Government-Wide Financial Statements:	
Statement of Net Assets – Cash Basis -June 30, 2004.....	21
Statement of Activities – Cash Basis for fiscal year ended June 30, 2004.....	22
Fund Financial Statements:	
Statement of Cash Basis Assets and Fund Balances – Governmental Funds - June 30, 2004	24
Statement of Cash Receipts, Disbursements, and Changes In Cash Basis Fund Balances - Governmental Funds for fiscal year ended June 30, 2004	25
Statement of Cash Receipts, Disbursements, and Changes in Fund Balance Budget and Actual - General Fund For fiscal year ended June 30, 2004.....	26
Statement of Fund Net Assets – Cash Basis - Proprietary Funds June 30, 2004	27

**MARION LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**TABLE OF CONTENTS
(Continued)**

Statement of Cash Receipts, Disbursements and Changes in Fund Net Assets – Cash Basis - Proprietary Funds For fiscal year ended June 30, 2004.....	28
Statement of Fiduciary Net Assets – Cash Basis - Fiduciary Funds June 30, 2004	29
Notes to the Basic Financial Statements – June 30, 2005 and 2004	31
Independent Accountants' Report on Compliance and on Internal Control Required By <i>Governmental Auditing Standards</i>	53
Schedule of Findings.....	55
Schedule of Prior Audit Findings.....	56



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Marion Local School District
Mercer County
7956 State Route 119
Maria Stein, Ohio 45860

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Marion Local School District, Mercer County, (the School District), as of and for the fiscal years ended June 30, 2005 and 2004, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

Ohio Administrative Code § 117-2-03 (B) requires the School District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, as discussed in Note 2A, the accompanying financial statements and notes follow the cash accounting basis. This is a comprehensive accounting basis other than generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, we cannot determine at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the School District, as of June 30, 2005 and 2004, and the respective changes in cash financial position and the respective budgetary comparison for the General fund thereof for the fiscal years then ended in conformity with the basis of accounting Note 2A describes.

For the fiscal years ended June 30, 2005 and 2004, the School District revised its financial presentation comparable to the requirements of Governmental Accounting Standard 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 March 2, 2006, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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 have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Betty Montgomery
Auditor of State

March 2, 2006

**MARION LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004
(UNAUDITED)**

The discussion and analysis of the Marion Local School District's (the School District) financial performance provides an overall review of the School District's financial activities for the fiscal years ended June 30, 2005 and 2004. The intent of this discussion and analysis is to look at the School District's performance as a whole; readers should also review the notes to the basic financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for 2005 and 2004 are as follows:

- Total program disbursements during 2005 were \$7,726,631 of which \$7,393,253 were in governmental activities. During 2004, total disbursements were \$7,668,217, of which \$7,343,035 were in governmental activities.
- During 2005, General Receipts accounted for \$6,584,273 or 84% of all receipts. Program specific receipts in the form of charges for services and sales, grants, and contributions accounted for \$1,252,666 or 16% of total receipts of \$7,836,939. During 2004, General Receipts accounted for \$6,390,348 or 84% of all receipts. Program specific receipts in the form of charges for services and sales, grants, and contributions accounted for \$1,242,209 or 16% of total receipts of \$7,632,557.
- In total, net assets increased \$110,308 during 2005. During 2004, net assets decreased in total \$(35,660).

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the School District as a whole 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 nonmajor funds presented in total in one column. In the case of the Marion Local School District, the General Fund is by far the most significant fund.

Basis of Accounting

The School District has elected to present its financial statements on a cash basis of accounting. The cash basis of accounting is a comprehensive basis of accounting other than generally accepted accounting principles. The cash basis of accounting involves the measurement of cash and cash equivalents and changes in cash and cash equivalents resulting from cash receipt and disbursement transactions.

Essentially, the only assets reported on this strictly cash receipt and disbursement basis presentation in a statement of net assets will be cash, cash equivalents and investments. The statement of activities reports cash receipts and disbursements, or in other words, the sources and uses of cash and cash equivalents. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

**MARION LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004
(UNAUDITED)
(Continued)**

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 fiscal year 2005 and 2004?" The Statement of Net Assets and the Statement of Activities answer this question.

These two statements report the School District's *net assets* and *changes in those 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 change may be the result of many factors, some financial, some not. Non-financial factors include the School District's property tax base, current property tax laws in Ohio which restrict revenue growth, facility conditions, required educational programs, and other factors.

In the Statement of Net Assets and the Statement of Activities, Governmental Activities include the School District's programs and services, including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities, and food service operations.

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major fund begins on page 14 for fiscal year 2005 and page 24 for fiscal year 2004. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental fund is the general 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 a cash basis of accounting. Receipts are recognized when received in cash and disbursements are recognized when paid. 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.

Proprietary Funds – When the School District charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Activities and Net Assets. The School District has two enterprise funds – the food services fund and the uniform school supplies fund.

Reporting the District's Fiduciary Responsibilities

The District acts in a trustee capacity as an agent for student organizations. These activities are reported in agency funds. The District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets on pages 18 and 26. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

**MARION LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004
(UNAUDITED)
(Continued)**

The School District as a Whole

The financial statements for fiscal years 2005 and 2004 were prepared on the cash basis utilizing the GASB Statement No. 34 format. The 2003 financial statements were prepared using a cash basis of accounting, but did not include the implementation of GASB 34 formatting. As a result, attempting to compare this year's data to last years' data is limited and may be misleading to the reader. The School District will provide additional comparative analysis in subsequent years.

Table 1 provides a summary of the School District's net assets for fiscal years 2005, 2004 and 2003:

**(Table 1)
Net Assets –Cash Basis**

	Governmental Activities			Business-Type Activities		
	2005	2004	2003	2005	2004	2003
Assets						
Equity in Pooled Cash and Cash Equivalen	\$2,591,332	\$2,473,645	\$2,508,597	\$146,676	\$154,055	\$154,763
Total Assets	<u>\$2,591,332</u>	<u>\$2,473,645</u>	<u>\$2,508,597</u>	<u>\$146,676</u>	<u>\$154,055</u>	<u>\$154,763</u>
Net Assets						
Restricted for:						
Capital Projects	\$ 314,043	\$ 303,176	\$ 285,846	\$ 0	\$ 0	\$ 0
Debt Service	215,758	196,437	177,259	0	0	0
Other Purposes	565,981	546,142	338,612	0	0	0
Unrestricted	1,495,550	1,427,890	1,706,880	146,676	154,055	154,763
Total Net Assets	<u>\$2,591,332</u>	<u>\$2,473,645</u>	<u>\$2,508,597</u>	<u>\$146,676</u>	<u>\$154,055</u>	<u>\$154,763</u>

**MARION LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004
(UNAUDITED)
(Continued)**

Table 2 shows the changes in net assets for fiscal years 2005 and 2004. Since this is the first year the School District has prepared financial statements following GASB Statement No. 34 formatting, receipts and disbursements comparisons to fiscal year 2003 are not available. This table may present additional fiscal years in side-by-side comparisons in future reporting years. This will enable the reader to draw further conclusion about the District's financial status and possibly project future problems.

**(Table 2)
Change in Net Assets**

	Governmental Activities		Business-Type Activities	
	2005	2004	2005	2004
Receipts				
Program Receipts				
Charges for Services	\$ 371,977	\$ 385,763	\$ 287,973	\$ 281,006
Operating Grants	549,248	502,499	35,695	38,846
Capital Grants	7,773	34,095	0	0
General Receipts				
Property Taxes	2,313,121	2,182,655	0	0
Grants and Entitlements	4,194,131	4,145,594	0	0
Interest	53,520	35,495	1,331	1,522
Miscellaneous	21,170	21,982	1,000	3,100
Total Receipts	7,510,940	7,308,083	325,999	324,474
Disbursements				
Program Disbursements				
Instruction	4,619,220	4,452,350	0	0
Support Services	2,055,591	2,071,482	0	0
Extracurricular	263,028	306,648	0	0
Capital Outlay	64,301	128,117	0	0
Debt Service	391,113	384,438	0	0
Food Services	0	0	285,008	277,404
Uniform School Supply	0	0	48,370	47,778
Total Disbursements	7,393,253	7,343,035	333,378	325,182
Increase (Decrease) in Net Assets	\$ 117,687	\$(34,952)	\$ (7,379)	\$ (708)

Governmental Activities

Several sources fund the School District's governmental activities with the school foundation program being the largest contributor. The School District received \$4.194 million from the school foundation program during fiscal year 2005, and \$4.15 million during fiscal year 2004. Property tax levies generated \$2.3 million in 2005 and \$2.2 million in 2004. With the combination of taxes and all intergovernmental receipts funding over 95% of all disbursements in governmental activities during 2005 and over 93% during 2004, the School District monitors both of these sources very closely for fluctuations.

**MARION LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004
(UNAUDITED)
(Continued)**

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax receipts and unrestricted State entitlements.

**(Table 3)
Governmental Activities**

	2005		2004	
	Total Cost of Service	Net Cost of Service	Total Cost of Service	Net Cost of Service
Instruction	\$ 4,619,220	\$ 3,937,244	\$ 4,452,350	\$ 3,800,629
Support Services:				
Pupil and Instructional Staff	448,719	439,359	448,594	436,612
Board of Education, Administration And Fiscal	794,390	784,653	806,656	791,580
Operation and Maintenance of Plant	549,248	545,743	560,297	556,888
Pupil Transportation	245,899	235,423	252,891	242,210
Business	2,307	2,307	2,115	2,115
Central	15,028	10,154	929	373
Extracurricular Activities	263,028	132,321	306,648	142,168
Capital Outlay	64,301	29,363	128,117	105,886
Debt Service	391,113	347,688	384,438	342,217
Total	<u>\$ 7,393,253</u>	<u>\$ 6,464,255</u>	<u>\$ 7,343,035</u>	<u>\$ 6,420,678</u>

Instruction and student support services comprise approximately 69% of governmental program disbursements during fiscal year 2005 and 66% during 2004. Board of Education, fiscal and administration charges are approximately 11% of total disbursements during both fiscal years 2005 and 2004. Included in the 11% is fiscal disbursements, which include payments to the County Auditor(s) for administrative fees and other administrative services provided by the District. Pupil transportation and the operation/maintenance of facilities accounts for 11% of all governmental program disbursements.

The dependence upon school foundation and tax receipts for governmental activities is apparent. The State funding, as a whole, is by far the primary support for Marion Local School District students.

Business-Type Activities

The District's most significant business-type activity includes the food services. In reviewing the business-type activities' net receipts/ (disbursements) resulting from cash basis transactions, the results of the activities need to be monitored annually.

**MARION LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004
(UNAUDITED)
(Continued)**

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 years 2005 and 2004, the School District did modify its general fund budget. The School District uses site-based budgeting, and budgeting systems are designed to tightly control total site budgets but provide flexibility for site management.

For the fiscal year 2005, General Fund budget basis receipts were \$6,594,529, over the original budget estimates of \$6,432,268. This \$162,261 increase was also attributable to increases in intergovernmental receipts and a decrease in tax receipts. For 2004 General Fund, budget basis receipts were \$6,387,437, over the original budget estimates of \$6,269,775. Of this \$117,662 increase, most was attributable to an increase in property tax receipts.

Debt Administration

At June 30, 2005, the District's outstanding debt included \$3,220,000 in Serial and Term Bonds and \$75,155 in Capital Appreciation Bonds issued for improvements to school building and structures. The District also has \$59,275 outstanding in an interest-free Environmental Protection Loan for asbestos removal projects. For further information regarding the District's debt, refer to Note 10 to the basic financial statements.

Current Issues

The School District, while relying on the State of Ohio to furnish almost two thirds of their financial support, also continues to receive strong support from the residents of the School District. The Board of Education submitted a replacement emergency levy which was approved by the residents during November 2003.

Real estate and personal property tax collections have shown small increases. The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. The overall income generated by a levy will not increase solely as a result of inflation due to Ohio House Bill 920 (passed in 1976). 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 was reappraised and increased to \$200,000 (and this inflationary increase in value is comparable to other property owners) the effective tax rate would become .5 mills and the owner would still pay \$35.00.

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 33% of total receipts for governmental activities for the School District during fiscal year 2005.

The School District has also been affected by increased delinquency rates and changes in the personal property tax structure (utility deregulation) and commercial business/property uncertainties. Management has diligently planned disbursements so that the last levy has stretched for longer than it was planned. This has been made increasingly difficult with mandates in gifted education, rising utility costs, increased special education services required for our students, and significant increases in health insurance and property/liability/fleet insurance.

**MARION LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004
(UNAUDITED)
(Continued)**

From a State funding perspective, the State of Ohio was found by the Ohio Supreme Court in March, 1997 to be operating an unconstitutional education system, one that was neither "adequate" nor "equitable." It is still undetermined whether the State has met the standards of the Ohio Supreme Court.

The Marion Local School District has not seen any meaningful growth in State funding for a couple of years. How the legislature plans to fund education programs during a weakened economy remains a concern.

All 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 systems of budgeting and internal controls are well regarded. All of the School District's financial abilities will be needed to meet the challenges of the future.

Current Building Issues

Marion Local completed an OSFC rebuilding project at the end of 2002. The School District also passed a ½ mill maintenance levy which will run for 23 years to help maintain facilities renovated by the project.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, 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 any questions about this report or need additional financial information, contact Paul Gagel, Treasurer of Marion Local School District, 7956 SR 119, Maria Stein, OH 45860.

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**MARION LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**STATEMENT OF NET ASSETS - CASH BASIS
JUNE 30, 2005**

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
Assets			
Equity in Pooled Cash and Cash Equivalents	\$2,591,332	\$146,676	\$2,738,008
Total Assets	<u>2,591,332</u>	<u>146,676</u>	<u>2,738,008</u>
 Net Assets			
Restricted for:			
Capital Projects	314,043		314,043
Debt Service	215,758		215,758
Other Purposes	565,981		565,981
Unrestricted	<u>1,495,550</u>	<u>146,676</u>	<u>1,642,226</u>
Total Net Assets	<u>\$2,591,332</u>	<u>\$146,676</u>	<u>\$2,738,008</u>

See accompanying notes to the financial statements.

**MARION LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**STATEMENT OF ACTIVITIES - CASH BASIS
FOR THE YEAR ENDED JUNE 30, 2005**

	<u>Program Cash Receipts</u>			
	<u>Cash Disbursements</u>	<u>Charges for Services and Sales</u>	<u>Operating Grants, Contributions and Interest</u>	
Governmental Activities:				
Instruction				
Regular	\$3,735,440	\$205,618	\$46,563	
Special	721,908		399,922	
Vocational	161,872		29,873	
Support Services				
Pupil	176,906		126	
Instructional Staff	271,813		9,234	
Board of Education	26,422			
Administration	574,275	8,487		
Fiscal	193,693		1,250	
Business	2,307			
Operation and Maintenance of Plant	549,248		3,505	
Pupil Transportation	245,899		10,476	
Central	15,028		4,874	
Extracurricular Activities	263,028	130,707		
Capital Outlay				
Site Improvement	46,317	27,165		4,317
Architecture and Engineering	784			
Facilities Acquisition and Construction	17,200			3,456
Repayment of Debt	391,113		43,425	
Total Governmental Activities	<u>7,393,253</u>	<u>371,977</u>	<u>549,248</u>	<u>7,773</u>
Business-Type Activities:				
Food Services	285,008	227,987	35,695	
Uniform School Supply	48,370	59,986		
Total Business-Type Activities	<u>333,378</u>	<u>287,973</u>	<u>35,695</u>	
Totals	<u>\$7,726,631</u>	<u>\$659,950</u>	<u>\$584,943</u>	<u>\$7,773</u>

General Receipts

Property Taxes Levied for:
 General Purposes
 Debt Service
 Permanent Improvement
 Classroom Facilities & Maintenance
Grants and Entitlements not Restricted to Specific Programs
Interest
Miscellaneous

Total General Receipts

Change in Net Assets

Net Assets Beginning of Year

Net Assets End of Year

See accompanying notes to the financial statements.

Net (Disbursements) Receipts and Changes in Net Assets

Governmental Activities	Business-Type Activities	Total
(\$3,483,259)		(\$3,483,259)
(321,986)		(321,986)
(131,999)		(131,999)
(176,780)		(176,780)
(262,579)		(262,579)
(26,422)		(26,422)
(565,788)		(565,788)
(192,443)		(192,443)
(2,307)		(2,307)
(545,743)		(545,743)
(235,423)		(235,423)
(10,154)		(10,154)
(132,321)		(132,321)
(14,835)		(14,835)
(784)		(784)
(13,744)		(13,744)
<u>(347,688)</u>		<u>(347,688)</u>
<u>(6,464,255)</u>		<u>(6,464,255)</u>
	(21,326)	(21,326)
	11,616	11,616
	<u>(9,710)</u>	<u>(9,710)</u>
<u>(6,464,255)</u>	<u>(9,710)</u>	<u>(6,473,965)</u>
1,853,392		1,853,392
373,665		373,665
57,355		57,355
28,709		28,709
4,194,131		4,194,131
53,520	1,331	54,851
21,170	1,000	22,170
<u>6,581,942</u>	<u>2,331</u>	<u>6,584,273</u>
117,687	(7,379)	110,308
<u>2,473,645</u>	<u>154,055</u>	<u>2,627,700</u>
<u>\$2,591,332</u>	<u>\$146,676</u>	<u>\$2,738,008</u>

**MARION LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**STATEMENT OF CASH BASIS ASSETS AND FUND BALANCES
GOVERNMENTAL FUNDS
JUNE 30, 2005**

	General Fund	Other Governmental Funds	Total Governmental Funds
Assets			
Equity in Poold Cash and Cash Equivalents	\$1,495,550	\$871,370	\$2,366,920
Restricted Cash and Cash Equivalents	224,412		224,412
<i>Total Assets</i>	1,719,962	871,370	2,591,332
 Fund Balances			
Reserved for Encumbrances	16,537	88,899	105,436
Reserved for Bus Purchase	20,685		20,685
Reserved for Textbook & Instructional Materials	203,727		203,727
Unreserved:			
Undesignated, Reported in:			
General Fund	1,479,013		1,479,013
Special Revenue Funds		334,867	334,867
Debt Service		215,758	215,758
Capital Projects Funds		231,846	231,846
<i>Total Fund Balances</i>	\$1,719,962	\$871,370	\$2,591,332

See accompanying notes to the financial statements.

**MARION LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BASIS FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2005**

	General Fund	Other Governmental Funds	Total Governmental Funds
Receipts			
Taxes	\$1,853,392	\$459,728	\$2,313,120
Intergovernmental	4,462,872	288,282	4,751,154
Interest	50,876	2,645	53,521
Tuition and Fees	216,194		216,194
Extracurricular Activities		155,781	155,781
Miscellaneous	11,195	9,915	21,110
Total Receipts	6,594,529	916,351	7,510,880
Disbursements			
Current:			
Instruction			
Regular	3,634,822	100,618	3,735,440
Special	550,376	171,532	721,908
Vocational Education	161,872		161,872
Support Services			
Pupil	176,533	373	176,906
Instructional Staff	258,945	12,868	271,813
Board of Education	26,422		26,422
Administration	556,430	17,845	574,275
Fiscal	184,179	9,514	193,693
Business	2,307		2,307
Operation and Maintenance of Plant	533,635	15,613	549,248
Pupil Transportation	245,669	230	245,899
Central	600	14,428	15,028
Extracurricular Activities	151,508	111,520	263,028
Capital Outlay			
Site Acquisition and Improvements	175	46,142	46,317
Architecture and Engineering	784		784
Facilities Acquisition and Construction		17,200	17,200
Debt Service			
Repayment of Principal		190,994	190,994
Interest		200,119	200,119
Total Disbursements	6,484,257	908,996	7,393,253
Excess of Receipts Over Disbursements	110,272	7,355	117,627
Other Financing Sources (Uses)			
Operating Transfers-In		21,771	21,771
Other Financing Sources	60		60
Operating Transfers-Out	(21,771)		(21,771)
Total Other Financing Sources (Uses)	(21,711)	21,771	60
Net Change in Fund Balances	88,561	29,126	117,687
Fund Balances - Beginning of Year	1,631,401	842,244	2,473,645
Fund Balances - End of Year	\$1,719,962	\$871,370	\$2,591,332
Encumbrances	\$16,537	\$88,899	\$105,436

See accompanying notes to the financial statements.

**MARION LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2005**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
Receipts				
Taxes	\$1,984,263	\$1,828,799	\$1,853,392	\$24,593
Intergovernmental	4,150,876	4,408,710	4,462,872	54,162
Interest	50,600	50,600	50,876	276
Tuition and Fees	231,529	218,829	216,194	(2,635)
Miscellaneous	15,000	17,930	11,195	(6,735)
Total Receipts	<u>6,432,268</u>	<u>6,524,868</u>	<u>6,594,529</u>	<u>69,661</u>
Disbursements				
Current:				
Instruction				
Regular	3,871,493	3,875,993	3,644,994	230,999
Special	627,226	627,566	550,601	76,965
Vocational Education	193,319	193,419	161,872	31,547
Other	5,800	5,800		5,800
Support Services				
Pupil	205,556	205,556	177,283	28,273
Instructional Staff	282,729	283,174	260,408	22,766
Board of Education	34,300	34,300	26,422	7,878
Administration	609,095	612,485	556,629	55,856
Fiscal	215,405	215,405	187,179	28,226
Business	3,500	3,500	3,035	465
Operation and Maintenance of Plant	611,270	618,970	533,635	85,335
Pupil Transportation	301,039	329,779	245,669	84,110
Central	1,800	1,800	600	1,200
Extracurricular Activities	163,755	163,755	151,508	12,247
Capital Outlay				
Site Improvement	50,000	50,000	175	49,825
Architecture and Engineering	1,500	1,500	784	716
Facilities Acquisition and Construction	50,000	50,000		50,000
Total Disbursements	<u>7,227,787</u>	<u>7,273,002</u>	<u>6,500,794</u>	<u>772,208</u>
Excess of Receipts Over (Under) Disbursements	<u>(795,519)</u>	<u>(748,134)</u>	<u>93,735</u>	<u>841,869</u>
Other Financing Sources (Uses)				
Operating Transfers-In	300,266	290,266		(290,266)
Advances-In	65,000	65,000		(65,000)
Refund of Prior Year Expenditures			60	60
Operating Transfers-Out	(327,000)	(327,000)		327,000
Advances-Out	(65,000)	(65,000)	(21,771)	43,229
Other Miscellaneous Uses		(30,000)		30,000
Total Other Financing Sources (Uses)	<u>(26,734)</u>	<u>(66,734)</u>	<u>(21,711)</u>	<u>45,023</u>
Net Change in Fund Balances	<u>(822,253)</u>	<u>(814,868)</u>	<u>72,024</u>	<u>886,892</u>
Fund Balances Beginning	1,608,013	1,608,013	1,608,013	
Prior Year Encumbrances Appropriated	<u>23,388</u>	<u>23,388</u>	<u>23,388</u>	
Fund Balances End of Year	<u><u>\$809,148</u></u>	<u><u>\$816,533</u></u>	<u><u>\$1,703,425</u></u>	<u><u>\$886,892</u></u>

See accompanying notes to the financial statements.

MARION LOCAL SCHOOL DISTRICT
MERCER COUNTY

STATEMENT OF FUND NET ASSETS - CASH BASIS
PROPRIETARY FUNDS
JUNE 30, 2005

	<u>Business - Type Activity</u>
	<u>Enterprise</u>
Assets	
Equity in Poold Cash and Cash Equivalentts	<u>\$146,676</u>
Total Assets	<u><u>146,676</u></u>
Net Assets	
Unrestricted	<u>146,676</u>
Total Net Assets	<u><u>\$146,676</u></u>

See accompanying notes to the financial statements.

**MARION LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**STATEMENT OF CASH RECEIPTS,
DISBURSEMENTS AND CHANGES IN FUND NET ASSETS - CASH BASIS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2005**

	Business-Type Activity
	Enterprise
Operating Receipts	
Charges for Services	\$227,987
Tuition and Fees	59,986
Total Operating Receipts	287,973
Operating Disbursements	
Salaries	97,231
Fringe Benefits	27,415
Purchased Services	10,472
Materials and Supplies	183,045
Capital Outlay	15,215
Total Operating Disbursements	333,378
Operating Loss	(45,405)
Non-Operating Receipts	
Federal and State Subsidies	35,695
Interest	1,331
Miscellaneous	1,000
Total Non-Operating Receipts	38,026
<i>Change in Net Assets</i>	<i>(7,379)</i>
<i>Net Assets Beginning of Year</i>	<i>154,055</i>
<i>Net Assets End of Year</i>	<i>\$146,676</i>

See accompanying notes to the financial statements.

**MARION LOSCH SCHOOL DISTRICT
MERCER COUNTY**

**STATEMENT OF FIDUCIARY NET ASSETS - CASH BASIS
FIDUCIARY FUNDS
JUNE 30, 2005**

	<u>Agency</u>
Assets	
Equity in Poold Cash and Cash Equivalents	<u>\$75,580</u>
Total Assets	<u><u>75,580</u></u>
Net Assets	
Held in Trust for Students	<u>75,580</u>
Total Net Assets	<u><u>\$75,580</u></u>

See accompanying notes to the financial statements.

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**MARION LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**STATEMENT OF NET ASSETS - CASH BASIS
JUNE 30, 2004**

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
Assets			
Equity in Pooled Cash and Cash Equivalents	\$2,473,645	\$154,055	\$2,627,700
Total Assets	<u>2,473,645</u>	<u>154,055</u>	<u>2,627,700</u>
 Net Assets			
Restricted for:			
Capital Projects	303,176		303,176
Debt Service	196,437		196,437
Other Purposes	546,142		546,142
Unrestricted	<u>1,427,890</u>	<u>154,055</u>	<u>1,581,945</u>
Total Net Assets	<u>\$2,473,645</u>	<u>\$154,055</u>	<u>\$2,627,700</u>

See accompanying notes to the financial statements.

**MARION LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**STATEMENT OF ACTIVITIES - CASH BASIS
FOR THE YEAR ENDED JUNE 30, 2004**

	Program Cash Receipts			
	Cash Disbursements	Charges for Services and Sales	Operating Grants, Contributions and Interest	Capital Grants and Contributions
Governmental Activities:				
Instruction				
Regular	\$3,644,142	\$192,769	\$50,749	\$26,125
Special	660,982		355,061	
Vocational	142,065		27,017	
Other	5,161			
Support Services				
Pupil	182,453		4,444	
Instructional Staff	266,141		7,538	
Board of Education	25,692			
Administration	569,548	14,253		
Fiscal	211,416		823	
Business	2,115			
Operation and Maintenance of Plant	560,297		3,409	
Pupil Transportation	252,891		10,681	
Central	929		556	
Extracurricular Activities	306,648	164,480		
Capital Outlay				
Site Improvement	111,724	14,261		7,970
Facilities Acquisition and Construction	16,393			
Repayment of Debt	384,438		42,221	
Total Governmental Activities	7,343,035	385,763	502,499	34,095
Business-Type Activities:				
Food Services	277,404	229,414	38,846	
Uniform School Supply	47,778	51,592		
Total Business-Type Activities	325,182	281,006	38,846	
Totals	\$7,668,217	\$666,769	\$541,345	\$34,095

General Receipts

Property Taxes Levied for:
 General Purposes
 Debt Service
 Permanent Improvement
 Classroom Facilities & Maintenance
 Grants and Entitlements not Restricted to Specific Programs
 Interest
 Miscellaneous

Total General Receipts

Change in Net Assets

Net Assets Beginning of Year

Net Assets End of Year

See accompanying notes to the financial statements.

Net (Disbursements) Receipts and Changes in Net Assets

Governmental Activities	Business-Type Activities	Total
(\$3,374,499)		(\$3,374,499)
(305,921)		(305,921)
(115,048)		(115,048)
(5,161)		(5,161)
(178,009)		(178,009)
(258,603)		(258,603)
(25,692)		(25,692)
(555,295)		(555,295)
(210,593)		(210,593)
(2,115)		(2,115)
(556,888)		(556,888)
(242,210)		(242,210)
(373)		(373)
(142,168)		(142,168)
(89,493)		(89,493)
(16,393)		(16,393)
(342,217)		(342,217)
<u>(6,420,678)</u>		<u>(6,420,678)</u>
	(9,144)	(9,144)
	<u>3,814</u>	<u>3,814</u>
	(5,330)	(5,330)
<u>(6,420,678)</u>	<u>(5,330)</u>	<u>(6,426,008)</u>
1,730,225		1,730,225
368,067		368,067
56,331		56,331
28,032		28,032
4,145,594		4,145,594
35,495	1,522	37,017
21,982	3,100	25,082
<u>6,385,726</u>	<u>4,622</u>	<u>6,390,348</u>
(34,952)	(708)	(35,660)
<u>2,508,597</u>	<u>154,763</u>	<u>2,663,360</u>
<u>\$2,473,645</u>	<u>\$154,055</u>	<u>\$2,627,700</u>

**MARION LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**STATEMENT OF CASH BASIS ASSETS AND FUND BALANCES
GOVERNMENTAL FUNDS
JUNE 30, 2004**

	General Fund	Other Governmental Funds	Total Governmental Funds
Assets			
Equity in Pooled Cash and Cash Equivalents	\$1,427,890	\$842,244	\$2,270,134
Restricted Cash and Cash Equivalents	203,511		203,511
Total Assets	1,631,401	842,244	2,473,645
 Fund Balances			
Reserved for Encumbrances	23,388	44,796	68,184
Reserved for Bus Purchase	10,209		10,209
Reserved for Textbook & Instructional Materials	193,302		193,302
Unreserved:			
Undesignated, Reported in:			
General Fund	1,404,502		1,404,502
Special Revenue Funds		330,362	330,362
Debt Service		196,437	196,437
Capital Projects Funds		270,649	270,649
Total Fund Balances	\$1,631,401	\$842,244	\$2,473,645

See accompanying notes to the financial statements.

**MARION LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BASIS FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2004**

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Receipts			
Taxes	\$1,730,225	\$452,430	\$2,182,655
Intergovernmental	4,403,948	278,239	4,682,187
Interest	34,010	1,485	35,495
Tuition and Fees	204,957		204,957
Extracurricular Activities		180,806	180,806
Miscellaneous	14,297	8,186	22,483
Total Receipts	<u>6,387,437</u>	<u>921,146</u>	<u>7,308,583</u>
Disbursements			
Current:			
Instruction			
Regular	3,527,670	116,472	3,644,142
Special	527,049	133,933	660,982
Vocational Education	142,065		142,065
Other	5,161		5,161
Support Services			
Pupil	182,173	280	182,453
Instructional Staff	258,552	7,589	266,141
Board of Education	25,692		25,692
Administration	548,897	20,651	569,548
Fiscal	201,899	9,517	211,416
Business	2,115		2,115
Operation and Maintenance of Plant	537,025	23,272	560,297
Pupil Transportation	252,622	269	252,891
Central	894	35	929
Extracurricular Activities	156,350	150,298	306,648
Capital Outlay			
Site Improvements	51,868	59,856	111,724
Facilities Acquisition and Construction	525	15,868	16,393
Debt Service			
Repayment of Principal		175,994	175,994
Interest		208,444	208,444
Total Disbursements	<u>6,420,557</u>	<u>922,478</u>	<u>7,343,035</u>
Excess of Receipts Under Disbursements	<u>(33,120)</u>	<u>(1,332)</u>	<u>(34,452)</u>
Other Financing Sources (Uses)			
Operating Transfers-In		42,358	42,358
Operating Transfers-Out	(42,358)		(42,358)
Other Financing Uses		(500)	(500)
Total Other Financing Sources (Uses)	<u>(42,358)</u>	<u>41,858</u>	<u>(500)</u>
Net Change in Fund Balances	(75,478)	40,526	(34,952)
Fund Balances - Beginning of Year	<u>1,706,879</u>	<u>801,718</u>	<u>2,508,597</u>
Fund Balances - End of Year	<u>\$1,631,401</u>	<u>\$842,244</u>	<u>\$2,473,645</u>
Encumbrances	<u>\$23,388</u>	<u>\$44,796</u>	<u>\$68,184</u>

See accompanying notes to the financial statements.

**MARION LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2004**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
Receipts				
Taxes	\$1,597,391	\$1,552,837	\$1,730,225	\$177,388
Intergovernmental	4,422,698	4,449,825	4,403,948	(45,877)
Interest	25,400	25,400	34,010	8,610
Tuition and Fees	214,286	202,107	204,957	2,850
Miscellaneous	10,000	10,000	14,297	4,297
Total Receipts	<u>6,269,775</u>	<u>6,240,169</u>	<u>6,387,437</u>	<u>147,268</u>
Disbursements				
Current:				
Instruction				
Regular	3,817,661	3,777,891	3,545,479	232,412
Special	552,720	606,340	527,049	79,291
Vocational Education	168,765	208,149	142,065	66,084
Other	17,953	5,661	5,161	500
Support Services				
Pupil	201,709	207,329	182,484	24,845
Instructional Staff	273,893	288,306	261,276	27,030
Board of Education	38,696	33,386	25,692	7,694
Administration	568,255	585,910	548,897	37,013
Fiscal	219,868	221,563	201,899	19,664
Business	3,500	3,500	2,115	1,385
Operation and Maintenance of Plant	570,168	606,483	539,570	66,913
Pupil Transportation	326,952	303,182	252,622	50,560
Central	2,460	1,860	894	966
Extracurricular Activities	154,505	158,105	156,350	1,755
Capital Outlay				
Site Improvement	224,129	149,129	51,868	97,261
Architecture and Engineering	3,000	1,500		1,500
Facilities Acquisition and Construction	100,649	50,649	525	50,124
Total Disbursements	<u>7,244,883</u>	<u>7,208,943</u>	<u>6,443,946</u>	<u>764,997</u>
Excess of Receipts Over (Under) Disbursements	<u>(975,108)</u>	<u>(968,774)</u>	<u>(56,509)</u>	<u>912,265</u>
Other Financing Sources (Uses)				
Operating Transfers-In		290,266		(290,266)
Advances-In	355,266	65,000		(65,000)
Operating Transfers-Out	(265,000)	(312,358)	(42,358)	270,000
Advances-Out	(65,000)	(65,000)		65,000
Other Financing Uses	(48,004)	(30,000)		30,000
Total Other Financing Sources (Uses)	<u>(22,738)</u>	<u>(52,092)</u>	<u>(42,358)</u>	<u>9,734</u>
Net Change in Fund Balances	(997,846)	(1,020,866)	(98,867)	921,999
Fund Balances Beginning	1,572,088	1,572,088	1,572,088	
Prior Year Encumbrances Appropriated	134,792	134,792	134,792	
Fund Balances End of Year	<u>\$709,034</u>	<u>\$686,014</u>	<u>\$1,608,013</u>	<u>\$921,999</u>

See accompanying notes to the financial statements.

MARION LOCAL SCHOOL DISTRICT
MERCER COUNTY

STATEMENT OF FUND NET ASSETS - CASH BASIS
PROPRIETARY FUNDS
JUNE 30, 2004

	<u>Business - Type Activity</u>
	<u>Enterprise</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$154,055</u>
Total Assets	<u><u>154,055</u></u>
Net Assets	
Unrestricted	<u>154,055</u>
Total Net Assets	<u><u>\$154,055</u></u>

See accompanying notes to the financial statements.

**MARION LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND NET ASSETS - CASH BASIS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2004**

	Business-Type Activity
	Enterprise
Operating Receipts	
Charges for Services	\$229,414
Tuition and Fees	51,592
	281,006
Operating Disbursements	
Salaries	100,292
Fringe Benefits	37,198
Purchased Services	4,502
Materials and Supplies	177,593
Capital Outlay	5,597
	325,182
Total Operating Disbursements	325,182
Operating Loss	(44,176)
Non-Operating Receipts	
Federal and State Subsidies	38,846
Interest	1,522
Miscellaneous	3,100
	43,468
Total Non-Operating Receipts	43,468
Change in Net Assets	(708)
Net Assets Beginning of Year	154,763
Net Assets End of Year	\$154,055

See accompanying notes to the financial statements.

MARION LOCAL SCHOOL DISTRICT
MERCER COUNTY

STATEMENT OF FIDUCIARY NET ASSETS - CASH BASIS
FIDUCIARY FUNDS
JUNE 30, 2004

	<u>Agency</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$57,280</u>
Total Assets	<u><u>57,280</u></u>
Net Assets	
Held in Trust for Students	<u>57,280</u>
Total Net Assets	<u><u>\$57,280</u></u>

See accompanying notes to the financial statements.

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**MARION LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

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

The School District was established during 1955. The School District serves an area of approximately ninety-one square miles. It is located in Auglaize, Darke, and Mercer Counties. The School District is the 502nd largest in the State of Ohio (among 612 school districts) in terms of enrollment. It is staffed by forty classified employees, sixty-five certified teaching personnel, and six administrative employees who provide services to approximately nine hundred eighty students and other community members. The School District currently operates two instructional buildings.

The reporting entity is comprised of the primary government and other organizations that are included to insure that the financial statements of the School District are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the School District. For the School District, this includes general operations, food service, and student related activities of the School District. There are no component units of the Marion Local School District.

The School District participates in four jointly governed organizations and three insurance pools. These organizations are the Northwest Ohio Area Computer Services Cooperative, the Mercer County Local Professional Development Committee, the West Central Regional Professional Development Center, the West Central Ohio Special Education Regional Resource Center, the OASBO/Sheakley Workers' Compensation Group Rating Program, the Ohio School Plan, and the Mercer Auglaize Employee Benefit Trust. These organizations are presented in Notes 12 and 13 to the general purpose financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 2.A., these financial statements are presented on a cash basis of accounting. This cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. The School District does not apply FASB statements issued after November 30, 1989, to its business-type activities and to its enterprise funds. Following are the more significant of the School District's accounting policies.

A. Basis of Accounting

Although required by Ohio Administrative Code Sections 117-2-03(B) to prepare its annual financial report in accordance with generally accepted accounting principles (GAAP), the School District chooses to prepare its financial statements and notes in accordance with the cash accounting basis. This basis of accounting is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred.

**MARION LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved). Difference between disbursements reported in the fund and entity wide statements versus budgetary expenditures are due to encumbrances outstanding at the beginning and end of the fiscal year.

These statements include adequate disclosure of material matters, in accordance with the basis of accounting described in the preceding paragraph.

B. Basis of Presentation - Fund Accounting

1. Government-Wide Financial Statements

The Statement of Net Assets and Statement of Activities display information about the School District as a whole. The statements include all funds of the School District except for fiduciary funds.

The Statement of Net Assets presents the financial condition of the governmental and business-type activities of the School District at year-end. The Statement of Activities presents a comparison between disbursements and program receipts for each program or function of the School District's governmental activities and for the business-type activities of the School District. Disbursements are those that are specifically associated with a service, program or department, and therefore, clearly identifiable to a particular function. Program receipts include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Receipts which are not classified as program receipts are presented as general receipts of the School District with certain limited exceptions. The comparison of disbursements with program receipts identifies the extent to which each business segment or governmental function is self-financing or draws from the general resources of the School District. Governmental activities generally are financed through taxes, intergovernmental receipts, and other non-exchange receipts. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

2. Fund Financial Statements

During the year, the School District segregates transactions related to certain School District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. The focus of governmental and enterprise fund/business type activity financial statement is on major funds. Each major fund is presented in a single column. Fiduciary funds are reported by type.

Fund financial statements of the School District are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, fund equity, receipts and disbursements. Funds are organized into two major categories: governmental and proprietary.

**MARION LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the School District or meets the following criteria:

- a. Total assets, receipts, or disbursements of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
- b. Total assets, receipts, or disbursements of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The funds of the financial reporting entity are described below:

3. Governmental Funds/Governmental Activities

Governmental funds are those through which most governmental functions of the School District are financed. The following is the School District's major governmental fund for each fiscal year 2005 and 2004:

General Fund - The General Fund is the primary operating fund of the School District and always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

4. Proprietary Fund/Business-Type Activities

Proprietary funds are used to account for the School District's ongoing activities which are similar to those found in the private sector. The School District's proprietary funds are classified as enterprise funds and account for the uniform school supplies and lunch room funds.

Enterprise funds are used to account for business-like activities provided by the School District. The intent of the School District is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

5. Fiduciary Fund Types

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

C. Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified.

**MARION LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

All funds, other than agency funds, are legally required to be budgeted and appropriated. The primary level of budgetary control is at the two digit function level for the General Fund, and at the fund level for all other funds. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

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

1. Tax Budget

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

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

2. Estimated Resources

Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the County Budget Commission and receives the commission's certificate of estimated resources which states the projected receipts of each fund. Prior to June 30, the School District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered cash balances from the preceding year. The certificate may be further amended during the year if projected increases or decreases in receipts are identified by the School District Treasurer.

3. Appropriations

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

**MARION LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources. During the years, several supplemental appropriations were legally enacted; however, none of these amendments were significant. The amounts reported as the original budgeted amounts reflect the first appropriation resolution for that fund that covered the entire fiscal year, including amounts automatically carried forward from prior fiscal years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the fiscal year.

4. Encumbrances

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

5. Lapsing of Appropriations

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

D. Cash and Cash Equivalents

To improve cash management, all cash received by the School District is pooled. Monies for all funds, including proprietary funds, are maintained in pooled accounts or temporarily used to purchase short term investments. Individual fund integrity is maintained through School District records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents."

For purposes of financial reporting, 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 are reported as investments.

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or negative receipts (contra revenue), respectively.

The School District invested in nonnegotiable certificates of deposits, government agency securities, and STAR Ohio. Investments are reported at cost, except for STAR Ohio. 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, 2005 and June 30, 2004. Investment earnings are allocated as authorized by State statute based upon School District policy.

**MARION LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Total interest receipts credited during fiscal year 2005 was \$54,852 which includes \$50,876 credited to the General Fund and \$3,976 assigned to other School District Funds. While total interest receipts credited during fiscal year 2004 was \$37,017 which includes \$34,010 credited to the General Fund and \$3,007 assigned to other School District Funds.

E. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributions, grantors, law of other governments, or imposed by law through constitutional provisions or enabling legislation. Restricted assets in the General Fund include unexpended revenues for bus purchase and textbook & instructional materials.

F. Capital Assets

Acquisitions of property, plant, and equipment are recorded as disbursements when paid. The financial statements do not report these assets or depreciation expense.

G. Accumulated Leave

Employees are entitled to cash payments for unused vacation and sick leave in certain circumstances, such as upon leaving employment. Unpaid vacation and sick leave are not reflected as liabilities under the cash basis of accounting used by the School District.

H. Long-Term Debt

Long-term debt arising from cash basis transactions of governmental funds is not reported as liabilities on the cash basis financial statements. The debt proceeds are reported as cash is received and payment of principal and interest are reported as disbursements when paid.

I. Intergovernmental Receipts

Unrestricted intergovernmental receipts received on the basis of entitlement are recorded as receipts when the entitlement is received. Federal and State reimbursement type grants for the student lunches served provided by proprietary funds are recorded as receipts when the grant is received.

J. Inventory and Prepaid Items

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

K. Interfund Receivables/Payables

During the course of normal operations, the School District has numerous transactions between funds. The most significant include:

1. Transfers of resources from one fund to another fund through which resources are to be expended are recording as operating transfers.
2. Reimbursements from one fund to another are treated as disbursements in the reimbursing fund and a reduction in disbursements in the reimbursed fund.

**MARION LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The School District reports advances-in and advances-out for interfund loans. These items are not reflected as assets and liabilities on the accompanying financial statements. At fiscal years ending June 30, 2005, and June 30, 2004 there were no unpaid interfund cash advances.

L. Employer Contributions to Cost-Sharing Pension Plans

The School District recognizes disbursements for employer contributions to cost-sharing plans when they are paid. As described in Notes 8 and 9, the employer contributions include portions for pension benefits and for postretirement health care benefits.

M. Equity Classifications

1. Government-Wide Statements

Equity is classified as net assets, and displayed in separate components:

- a. Restricted net assets** – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or (2) law through constitutional provisions or enabling legislation.
- b. Unrestricted net assets** – All other net assets that do not meet the definition of “restricted.”

Net assets restricted for other purposes include resources restricted for public school support programs, athletic programs, classroom facilities and maintenance tax levy, and federal and state grants restricted to cash disbursement for specified purposes. The School District’s policy is to first apply restricted resources when a cash disbursement is incurred for purposes for which both restricted and unrestricted net assets are available. At June 30, 2005 and June 30, 2004, the following represents the amount restricted by enabling legislation: bond retirement levy - \$373,665 and \$368,067, permanent improvement levy – \$57,355 and \$56,331, and classroom facilities and maintenance levy - \$28,709 and \$28,032; respectively.

2. Fund Financial Statements

Governmental fund equity is classified as fund balance. Proprietary fund equity is classified the same as in the government-wide statements. The School District records reservations for portions of fund equity which are legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriation or disbursement. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves are established for encumbrances, textbook and instructional materials and bus purchase.

**MARION LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. Receipts and Disbursements

1. Program Receipts

In the Statement of Activities, receipts that are derived directly from each activity or from parties outside the School District's taxpayers are reported as program receipts. The School District has the following program receipts: charges for services and sales, operating and capital grants and contributions.

All other governmental receipts are reported as general. All taxes are classified as general receipts even if restricted for a specific purpose.

2. Operating Receipts and Disbursements

Operating receipts and disbursements for proprietary funds result from providing services. They also include all receipts and disbursements not related to capital and related financing, noncapital financing, or investing activities.

3. CHANGE IN ACCOUNTING PRINCIPLE

For fiscal years 2005 and 2004, the School District has implemented Governmental Accounting Standards Board (GASB) Statement No. 40, "Deposit and Investment Risk Disclosure". GASB Statement No. 40 establishes and modifies the disclosure requirements related to investment risks. The implementation of this statement did not result in any change to the School District's financial statements.

4. COMPLIANCE

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

5. DEPOSITS AND INVESTMENTS

State statutes classify monies held by the School District into three categories.

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the School District Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

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

**MARION LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004
(Continued)**

5. DEPOSITS AND INVESTMENTS (Continued)

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

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

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

1. United States treasury notes, bills, bonds, or other obligations 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 any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities.
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) 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.
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed twenty-five percent of the interim moneys available for investment at any one time
8. Under certain circumstances, corporate debt interests 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 securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

**MARION LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004
(Continued)**

5. DEPOSITS AND INVESTMENTS (Continued)

As of June 30, 2005 and 2004, the District had \$1,100 in undeposited cash on hand which is included in the fund balance.

A. Deposits

Custodial credit risk is the risk that in the event of bank failure, the government's deposits may not be returned to it. Protection of School District cash and deposits is provided by the federal deposit insurance corporation as well as qualified securities pledged by the institution holding the assets. By law, financial institutions must collateralize all public deposits. The face value of the pooled collateral must equal at least 105 percent of public funds deposited. Collateral is held by trustees including the Federal Reserve Bank and designated third party trustees of the financial institutions.

At June 30, 2005, the carrying amount of the School District's deposits was \$1,940,538 and the bank balance was \$2,147,955. Of the bank balance, \$583,996 was covered by federal depository insurance and \$1,563,959 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging institution's trust department not in the School District's name.

At June, 30, 2004, the carrying amount of the School District's deposits was \$1,737,838 and the bank balance was \$1,847,038. Of the bank balance, \$446,069 was covered by federal depository insurance and \$1,400,969 was uninsured and collateralized with securities held by the pledging institution's trust department not in the School District's name.

B. Investments

Investments are reported at fair value. As of June 30, 2005, the School District had the following investments. All investments mature within six months of fiscal year end.

	<u>Value as of 6/30/05</u>	<u>Maturities</u>		<u>% of Invested Balance</u>
		<u>0 < 1 Year</u>	<u>1 – 5 Years</u>	
US Agency Securities	\$ 360,309	\$ 110,309	\$ 250,000	41.32
STAR Ohio	511,641	511,641	0	58.68
	<u>\$ 871,950</u>	<u>\$ 621,950</u>	<u>\$ 250,000</u>	<u>100.00%</u>

As of June 30, 2004, the School District had the following investments. All investments mature within six months of fiscal year end.

	<u>Value as of 6/30/04</u>	<u>Maturities</u>		<u>% of Invested Balance</u>
		<u>0 < 1 Year</u>	<u>1 – 5 Years</u>	
STAR Ohio	<u>\$ 946,042</u>	<u>\$ 946,042</u>	<u>\$ 0</u>	<u>100.00%</u>

**MARION LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004
(Continued)**

5. DEPOSITS AND INVESTMENTS (Continued)

C. Interest Rate Risk

The Ohio Revised Code generally limits security purchases to those that mature within five years of the settlement date. Interest rate risk arises because potential purchases of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The School District's investment policy addresses interest rate risk by requiring that the School District's investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations.

D. Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The School District has no investment policy dealing with investment custodial risk beyond the requirement of ORC 135.14(M)(2) which states, "Payments for investments shall be made only upon the delivery of securities representing such investments to the treasurer, investing authority, or qualified trustee. If the securities transferred are not represented by a certificate, payment shall be made only upon receipt of confirmation of transfer from custodian by the treasurer, governing board, or qualified trustee."

The School District has no investment policy dealing with investment credit risk beyond the requirements of State statute. The School District's investments in Star Ohio are rated AAAM by Standard & Poor's at fiscal year-ends June 30, 2005 and 2004. The School District's investments in federal agency securities are from Federal Home Loan Bank and Federal National Mortgage Corporation with a Moody credit rating of Aaa.

E. Concentration Risk

The School District policy places no limit on the amount the district may invest in any one issuer. More than 5 percent of the School District's investments are in US Treasury/Agency bonds and STAR Ohio. These investments are 41.32% and 58.68%, respectively, of the School District's total investments as June 30, 2005. These investments are 0% and 100%, respectively, of the School District's total investments at June 30, 2004.

6. 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 distributions occur in a new fiscal year. Property taxes include amounts levied against all real, public utility, and tangible personal (used in business) property located in the School District. Real property tax receipts received during calendar year 2005 represent the collection of calendar year 2004 taxes. Real property taxes received during calendar year 2005 were levied after April 1, 2004, on the assessed values as of January 1, 2004, 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.

**MARION LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004
(Continued)**

6. PROPERTY TAXES (Continued)

Public utility property tax receipts received during calendar year 2005 represent the collection of calendar year 2004 taxes. Public utility real and tangible personal property taxes received during calendar year 2005 became a lien on December 31, 2003, were levied after April 1, 2004, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax receipts received during calendar year 2005 (other than public utility property) represent the collection of calendar year 2005 taxes. Tangible personal property taxes received during calendar year 2005 were levied after April 1, 2004, on the value as of December 31, 2004. Tangible personal property is currently assessed at 25 percent of true value for capital assets and 24 percent 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 Auglaize, Darke, and Mercer Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the counties by June 30, 2005, are available to finance fiscal year 2005 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

The assessed values upon which fiscal year 2005 taxes were collected are:

	2004 Second-Half Collections		2005 First-Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential and Other Real Estate	\$58,366,600	93.01%	\$60,274,440	93.18%
Public Utility	2,082,410	3.32	2,067,670	3.20
Tangible Personal Property	<u>2,300,364</u>	<u>3.67</u>	<u>2,341,762</u>	<u>3.62</u>
Total Assessed Value	<u>\$62,749,374</u>	<u>100.00%</u>	<u>\$64,683,872</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$37.65		\$40.52	

7. RISK MANAGEMENT

A. Property and Liability

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal years 2005 and 2004, the School District contracted for the following insurance coverage:

**MARION LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004
(Continued)**

7. RISK MANAGEMENT (Continued)

Coverage provided by Indiana Insurance is as follows:	
Buildings and Contents – replacement cost	\$ 23,292,750
Coverage provided by Ohio School Plan is as follows:	
General Liability	
Per Occurrence	1,000,000
Aggregate	3,000,000
Coverage provided by Auto-Owners Insurance is as follows:	
Automobile Liability	1,000,000
Uninsured Motorists	1,000,000

B. Workers' Compensation

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

C. Health Care Benefits

The School District participates in the Mercer Auglaize Employee Benefit Trust (Trust), a public entity shared risk pool consisting of eleven local school districts and two educational service centers. The School District pays monthly premiums to the Trust for employee medical and dental insurance coverage. The Trust is responsible for the management and operations of the program. Upon withdrawal from the Trust, a participant is responsible for the payment of all Trust liabilities to its employees, dependents, and designated beneficiaries accruing as a result of withdrawal.

8. DEFINED BENEFIT PENSION PLANS

A. State Teachers Retirement System

The Marion Local 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 basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information for STRS. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771 or by calling (614) 227-4090.

**MARION LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004
(Continued)**

8. DEFINED BENEFIT PENSION PLANS (Continued)

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on 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 Combine 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.

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 years ended June 30, 2005 and 2004, plan members are required to contribute 10 percent of their annual covered salary. The School District is required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2003 this pension contribution was also 13 percent. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers.

The School District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$313,269, \$301,809, and \$424,474, respectively.

B. School Employees Retirement System

The School District contributes to the School Employees Retirement System (SERS), a cost sharing multiple employer defined benefit pension plan administered by the School Employees Retirement Board. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefits are established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476. It is also posted on the SERS' website, www.ohsers.org, under Forms and Publications.

**MARION LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004
(Continued)**

8. DEFINED BENEFIT PENSION PLANS (Continued)

Plan members are required to contribute 10 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. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 percent of annual covered salary 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 District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$71,465, \$64,326, and \$53,159, respectively.

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, 2005 and 2004, all members of the Board of Education had elected Social Security. The Board's liability is 6.2 percent of wages paid.

9. POST EMPLOYMENT BENEFITS

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

For STRS retirees who participated in the Defined Plan or Combined Plan and their dependents are eligible for health care coverage. The State Teachers Retirement Board has statutory authority over how much, if any, of the health care cost will be absorbed by STRS. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. The board currently allocates employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund.

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the fund was \$3.3 billion at June 30, 2005. For the year ended June 30, 2005, net health care costs paid by STRS were \$254,780,000 and there were 115,395 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and disability, and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

**MARION LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004
(Continued)**

9. POST EMPLOYMENT BENEFITS (Continued)

At June 30, 2005, the employer contributions to fund health care benefits were 3.43 percent 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 2005, the minimum pay has been established at \$27,400. For the School District, the amount to fund health care benefits, including the surcharge, was \$23,191 for fiscal year 2005 and \$34,746 for fiscal year 2004.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. Net health care costs for the year ending June 30, 2005 were \$178,221,113. The target level for the health care fund is 150% of the projected claims less premium contributions for the next fiscal year. As of June 30, 2005, the value of the health care fund was \$267.5 million, which is about 168% of next year's projected net health care costs of \$158,776,151. On the basis of actuarial projections, the allocated contributions will be insufficient, in the long term, to provide for a health care reserve equal to at least 150% of estimated annual net claim costs. SERS has approximately 58,123 participants eligible to receive health care benefits.

10. LONG-TERM OBLIGATIONS

The changes in the School District's long-term obligations during fiscal year 2005 were as follows:

General Long-Term Obligations	<u>Interest Rate</u>	<u>Outstanding 6/30/04</u>	<u>Additions</u>	<u>Deductions</u>	<u>Outstanding 6/30/05</u>
General Obligation Bonds					
2000 School Improvement					
Serial and Term Bonds	4.4-5.75%	\$ 1,100,000	\$ 0	\$ 45,000	\$ 1,055,000
Capital Appreciation Bonds	12.20%	66,769	8,386	0	75,155
1997 Construction					
Serial and Term Bonds	3.4-5.37%	2,300,000	0	135,000	2,165,000
1993 Asbestos Removal Loan	0.00%	70,269	0	10,994	59,275
Total General Obligation Debt		<u>\$ 3,537,038</u>	<u>\$ 8,386</u>	<u>\$ 190,994</u>	<u>\$ 3,354,430</u>

The changes in the School District's long-term obligations during fiscal year 2004 were as follows:

General Long-Term Obligations	<u>Interest Rate</u>	<u>Outstanding 6/30/03</u>	<u>Additions</u>	<u>Deductions</u>	<u>Outstanding 6/30/04</u>
General Obligation Bonds					
2000 School Improvement					
Serial and Term Bonds	4.4-5.75%	\$ 1,145,000	\$ 0	\$ 45,000	\$ 1,100,000
Capital Appreciation Bonds	12.20%	59,304	7,465	0	66,769
1997 Construction					
Serial and Term Bonds	3.4-5.37%	2,420,000	0	120,000	2,300,000
1993 Asbestos Removal Loan	0.00%	81,263	0	10,994	70,269
Total General Obligation Debt		<u>\$ 3,705,567</u>	<u>\$ 7,465</u>	<u>\$ 175,994</u>	<u>\$ 3,537,038</u>

2000 School Improvement General Obligation Bonds - On April 7, 2000, the School District issued \$1,265,589 in voted general obligation bonds for improvements to buildings and structures. The bond issue included serial, term, and capital appreciation bonds, in the amount of \$495,000, \$730,000, and \$40,589, respectively. The bonds are being retired from the Bond Retirement debt service fund.

**MARION LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004
(Continued)**

10. LONG-TERM OBLIGATIONS (Continued)

The term bonds maturing on December 1, 2022, are subject to mandatory sinking fund redemption, at a redemption price equal to 100 percent of the principal amount redeemed plus accrued interest to the redemption date, on December 1 in the years and respective principal amounts as follows:

<u>Year</u>	<u>Amount</u>
2014	\$ 65,000
2015	70,000
2016	70,000
2017	75,000
2018	80,000
2019	85,000
2020	90,000
2021	95,000

Unless previously redeemed, the remaining principal amount of \$100,000 will mature at stated maturity on December 1, 2022.

The term bonds maturing on or after December 1, 2010, are subject to optional redemption, in whole or in part on any date, in inverse order of maturity and by lot within a maturity, in integral multiples of \$5,000, at the option of the School District on or after December 1, 2008, at the redemption prices (expressed as percentages of the principal amount to be redeemed) plus accrued interest to the redemption date as follows:

<u>Redemption Dates (Dates Inclusive)</u>	<u>Redemption Prices</u>
December 1, 2010 through November 30, 2011	101%
December 1, 2011 and thereafter	100%

The capital appreciation bonds will mature in fiscal years 2011 through 2013 and are not subject to redemption prior to maturity. The maturity amount of the bonds is \$180,000. For fiscal year 2005, \$8,386 was accreted for total bond value of \$75,155.

1997 Construction General Obligation Bonds - On March 17, 1997, the School District issued \$2,940,000 in voted general obligation bonds for building construction. The bonds were issued for a twenty-two year period with final maturity on December 1, 2019. The bonds are being retired from the Bond Retirement debt service fund.

1993 Asbestos Removal Loan - On January 7, 1993, the School District obtained an interest free loan for asbestos removal. The loan was issued for a seventeen year period, with final maturity during fiscal year 2010. The loan is being retired from the Bond Retirement debt service fund.

Compensated absences and intergovernmental payables, representing the School District's contractually required pension contributions, will be paid from the fund from which the employees' salaries are paid.

The School District's overall debt margin was \$2,742,150 with an unvoted debt margin of \$64,684 at June 30, 2005.

Principal and interest requirements to retire general obligation debt outstanding at June 30, 2005, were as follows:

**MARION LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004
(Continued)**

10. LONG-TERM OBLIGATIONS (Continued)

Fiscal Year Ending June 30,	Serial and Term Bonds	Capital Appreciation Bonds	1997 General Obligations Bonds	1993 Asbestos Removal Loan	Interest / Accretion	Total
2006	\$ 50,000	\$ 0	\$ 150,000	\$ 10,994	\$ 185,506	\$ 396,500
2007	50,000	0	80,000	10,994	157,281	298,275
2008	50,000	0	105,000	10,994	149,296	315,290
2009	55,000	0	115,000	10,994	144,846	325,840
2010	60,000	0	120,000	10,994	135,611	326,605
2011 – 2015	125,000	40,589	695,000	4,305	827,686	1,692,580
2016 – 2020	380,000	34,566	900,000	0	265,174	1,579,740
2021 – 2022	285,000	0	0	0	25,156	310,156
	<u>\$1,055,000</u>	<u>\$ 75,155</u>	<u>\$ 2,165,000</u>	<u>\$ 59,275</u>	<u>\$1,890,556</u>	<u>\$5,244,986</u>

11. STATUTORY RESERVES

The School District is required by State statute to annually set aside, in the General Fund, an amount based on a statutory formula for the purchase of textbooks and other instructional materials, and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the fiscal year must be held in cash at fiscal year end. These amounts must be carried forward and used for the same purposes in future years. In prior years, the School District was also required to set aside money for budget stabilization. For fiscal year 2005 and 2004, only the unspent portion of certain workers' compensation refunds continues to be set aside at fiscal year end.

The following cash basis information identifies the changes in the fund balance reserves for textbooks, capital improvements, and budget stabilization during fiscal years 2005 and 2004.

	Textbook Reserve	Capital Maintenance Reserve
Carry Over Balance, 6/30/2003	\$ 162,592	\$(1,190,208)
Required Set-Aside	134,946	134,946
Offsets	0	(84,363)
Qualifying Expenditures	(104,236)	(525)
Balance as of 6/30/2004	<u>\$193,302</u>	<u>\$(1,140,150)</u>
Excess/Cash Available for Carry-over to Subsequent Year	<u>\$ 193,302</u>	<u>\$(1,140,150)</u>
Carry Over Balance, 6/30/2004	\$ 193,302	\$(1,140,150)
Required Set-Aside	139,190	139,190
Offsets	0	(86,064)
Qualifying Expenditures	(128,765)	(53,126)
Balance as of 6/30/2005	<u>\$ 203,727</u>	<u>\$(1,140,150)</u>
Excess/ Cash Available for Carry-over to Subsequent Year	<u>\$ 203,727</u>	<u>\$(1,140,150)</u>

**MARION LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004
(Continued)**

11. STATUTORY RESERVES (Continued)

The School District had authorized offsets and qualifying expenditures during the fiscal year that reduced the capital maintenance set aside amount below zero. For the capital maintenance reserve, only the extra amount, which was a result of capital expenditures from bond proceeds, can be used to reduce the set-aside requirements of future years.

12. JOINTLY GOVERNED ORGANIZATIONS

Northwest Ohio Area Computer Services Cooperative - The School District is a participant in the Northwest Ohio Area Computer Services Cooperative (NOACSC), which is a computer consortium. NOACSC is an association of public school districts within the boundaries of Allen, Hancock, Mercer, Paulding, Putnam, and Van Wert Counties, and the Cities of St. Mary's and Wapakoneta. 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 NOACSC consists of two representatives from each county elected by majority vote of all charter member school districts within each county. During fiscal year 2005, the School District paid \$20,817 to NOACSC for various services. Financial information can be obtained from Raymond Burden, who serves as Director, 645 South Main Street, Lima, Ohio 45804.

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

West Central Regional Professional Development Center - The West Central Regional Professional Development Center (Center) is a jointly governed organization among the school districts in Allen, Auglaize, Hancock, Hardin, Mercer, Paulding, Putnam, and Van Wert Counties. The organization was formed to establish an articulated regional structure for professional development in which school districts, the business community, higher education, and other groups cooperatively plan and implement effective professional development activities that are tied directly to school improvement, and in particular, to improvements in instructional programs.

The Center is governed by a fifty-two member board made up of representatives from the participating school districts, the business community, and two institutions of higher learning. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained from Brad Browne, Hancock County Educational Service Center, 7746 County Road 140, Findlay, Ohio 45840.

West Central Ohio Special Education Regional Resource Center - The West Central Ohio Special Education Regional Resource Center (SERRC) is a jointly governed organization formed to initiate, expand, and improve special education programs and services for children with disabilities and their parents.

The SERRC is governed by a fifty-two member board consisting of the superintendent from the fifty participating school districts, one representative from a non-public school, and one representative from Wright State University. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained from Krista Hart, Hardin County Educational Service Center, 1 Court House Square, Suite 50, Kenton, Ohio 43326-2385.

**MARION LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004
(Continued)**

13. GROUP PURCHASING POOL

OASBO/Sheakley Workers' Compensation Group Rating Plan

The School District participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The OASBO Workers' Compensation Group Rating Plan (Plan) was established through the Ohio Association of School Business Officials as an insurance purchasing pool. The Plan's business and affairs are conducted by a five member OASBO Board of Directors. Each year, the participants pay an enrollment fee to the Plan to cover the costs of administering the program.

Ohio School Plan

The School District participates in the Ohio School Plan (Plan), an insurance purchasing pool established under Section 2744.081 of the Ohio Revised Code. The Plan is an unincorporated nonprofit association of its members which enables the participants to provide for a formalized joint insurance purchasing program for maintaining adequate insurance protection and provides risk management programs and other administrative services. The Plan's business and affairs are conducted by a fifteen member board consisting of superintendents, treasurers, the vice-president of Hylant Administrative Services, and a member of the Hylant Group, Inc. The Hylant Group, Inc. is the Plan's administrator and is responsible for processing claims. Hylant Administrative Services serves as the sales and marketing representative which establishes agreements between the Plan and its members. Financial information can be obtained from Hylant Administrative Services, 811 Madison Ave, 11th floor, Toledo, Ohio 43624.

Mercer Auglaize Employee Benefit Trust

The Mercer Auglaize Employee Benefit Trust (Trust) is a public entity shared risk pool consisting of eleven local school districts and two educational service centers. The Trust is organized as a Voluntary Employee Benefit Association under Section 501(c)(9) of the Internal Revenue Code and provides medical, prescription drug, and dental benefits to the employees of the participants. Each participant's superintendent is appointed to an Administrative Committee which advises the Trustee, Sky Bank, concerning aspects of the administration of the Trust. Each participant decides which plans offered by the Administrative Committee will be extended to its employees. Participation in the Trust is by written application subject to acceptance by the Administrative Committee and payment of the monthly premiums. Financial information can be obtained from Jim Mauntler; JM Consulting, 3547 Beechway Blvd., Toledo, Ohio 43614.

14. CONTINGENCIES

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2005 or 2004.

**MARION LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004
(Continued)**

14. CONTINGENCIES (Continued)

B. Litigation

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

C. State 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 is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

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Auditor of State Betty Montgomery

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

Marion Local School District
Mercer County
7956 State Route 119
Maria Stein, Ohio 45860

To the Board of Education:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Marion Local School District, Mercer County, (the School District), as of and for the fiscal years ended June 30, 2005 and 2004, which collectively comprise the School District's basic financial statements, and have issued our report thereon dated March 2, 2006 wherein we noted that the School District reports on the basis of accounting previously prescribed by the Auditor of State for financial reporting rather than generally accepted accounting principles which is required. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School District's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the School District's management dated March 2, 2006, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the School District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2005-001. In a separate letter to the School District's management dated March 2, 2006, we reported another matter related to noncompliance we deemed immaterial.

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Marion Local School District
Mercer County
Independent Accountants' Report on Compliance and Internal Control
Required by *Government Auditing Standards*
Page 2

We intend this report solely for the information and use of the audit committee, management, and the Board of Education. It is not intended for 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

March 2, 2006

MARION LOCAL SCHOOL DISTRICT
MERCER COUNTY

SCHEDULE OF FINDINGS
FOR THE YEARS ENDED JUNE 30, 2005 AND JUNE 30, 2004

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

FINDING NUMBER 2005-001

NONCOMPLIANCE CITATION

Ohio Rev. Code Section 117.38 provides that each public office shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the auditor of state has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. Ohio Administrative Code Section 117-2-03 further clarifies the requirements of Ohio Rev. Code Section 117.38.

Ohio Adm. Code Section 117-2-03 (B) requires the District to prepare its annual financial report in accordance with generally accepted accounting principles (GAAP). However, the School District prepared its financial statements in accordance with standards established by the Auditor of State for governmental entities not required to prepare annual reports in accordance with generally accepted accounting principles. The accompanying financial statements omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. Pursuant to Ohio Rev. Code Section 117.38 the School District may be fined and subject to various other administrative remedies for its failure to file the required financial report.

The School District should prepare their financial statements in accordance with GAAP.

**MARION LOCAL SCHOOL DISTRICT
MERCER COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEARS ENDED JUNE 30, 2005 AND JUNE 30, 2004**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2003-001	ORC Sec. 117.38 & OAC Sec. 117-2-03(B) – Failure to prepare financial statements in accordance with generally accepted accounting principles	No	Not corrected – refer to Finding 2005-001



**Auditor of State
Betty Montgomery**

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MARION LOCAL SCHOOL DISTRICT

MERCER COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
APRIL 4, 2006**