

**MARION CITY SCHOOL DISTRICT**

**MARION COUNTY**

**AUDITED  
BASIC FINANCIAL STATEMENTS**

**For The Year Ended June 30, 2006**





Mary Taylor, CPA  
Auditor of State

Board of Education  
Marion City School District  
910 East Church Street  
Marion, Ohio 43302

We have reviewed the *Independent Auditor's Report* of the Marion City School District, Marion County, prepared by Rea & Associates, Inc., for the audit period July 1, 2005 through June 30, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

*Mary Taylor*

Mary Taylor, CPA  
Auditor of State

October 29, 2007

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**MARION CITY SCHOOL DISTRICT  
MARION COUNTY**

**CONTENTS**

	<b><u>Page</u></b>
Independent Auditor's Report	1
Management's Discussion and Analysis	3
Basic Financial statements:	
Government-wide Financial Statements:	
Statement of Net Assets	11
Statement of Activities	12
Fund Financial Statements	
Balance Sheet – Governmental Funds	13
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities	14
Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds	15
Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds to Statement of Activities	16
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget (Non-GAAP Basis) and Actual – General Fund	17
Statement of Fund Net Assets – Enterprise Funds	18
Statement of Revenues, Expenses, and Changes in Fund Net Assets – Enterprise Funds	19
Statement of Cash Flows – Enterprise Funds	20
Statement of Fiduciary Net Assets – Fiduciary Funds	21
Statement of Change in Fiduciary Net Assets – Private Purpose Trust Fund	22
Notes to the basic financial statements	23
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	54

Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance OMB Circular A-133	55
Schedule of Federal Awards Receipts and Expenditures	57
Notes to the Schedule of Expenditures of Federal Awards – Cash Basis	58
Schedule of Findings and Questioned Costs	59
Summary Schedule of Prior Audit Findings	60

# Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

2300 Baton Rouge Avenue  
Lima, OH 45805-1130  
PH 419-331-1040  
FAX 419-331-1120  
[www.reacpa.com](http://www.reacpa.com)

*We're Ready For Your Future*

June 29, 2007

Board of Education  
Marion City School District  
Marion, Ohio

## INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, the aggregate discretely presented component unit and remaining fund information of the Marion City School District (the School District), Marion County, Ohio, as of and for the year ended June 30, 2006, 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 Marion City 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, the aggregate discretely presented component unit, and the remaining fund information of the Marion City School District, Marion County, Ohio, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 29, 2007 on our consideration of the Marion City 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. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 10 are not a required part of the basic financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Marion City School District's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U. S. Office of Management and Budget Circular A-133, *Audit of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Rea & Associates, Inc.*



Marion City School District  
Marion County  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2006  
Unaudited

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The discussion and analysis of Marion City School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2006. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the basic financial statements and notes to enhance their understanding of the School District's financial performance.

**Highlights**

Highlights for fiscal year 2006 are as follows:

Net assets for governmental activities increased \$1,972,101 from the prior fiscal year, or less than 3 percent. Net assets for business-type activities increased \$228,557, also less than 3 percent.

General revenues were \$36,895,231 or 74 percent of all governmental activities revenues. This reflects the School District's significant dependence on property taxes and unrestricted state entitlements.

For business-type activities, 99 percent of total revenues were generated by the programs in the form of charges for services and operating grants and contributions.

**Using the Basic Financial Statements**

This annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand Marion City School District as an entire operating entity.

The statement of net assets and the 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 a greater 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 a single column. For Marion City School District, the General Fund and the Food Service enterprise fund are the most significant funds.

**Reporting the School District as a Whole**

The statement of net assets and the statement of activities reflect how the School District did financially during fiscal year 2006. These statements include all assets and liabilities using the accrual basis of accounting similar to that which is used by most private-sector companies. This basis of accounting considers all of the current fiscal years' revenues and expenses regardless of when cash is received or paid.



Marion City School District  
Marion County  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2006  
Unaudited

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These 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 whether the financial position of the School District as a whole has increased or decreased from the prior fiscal year. Over time, these increases and/or decreases are one indicator of whether the financial position is improving or deteriorating. Causes for these changes may be the result of many factors, some financial, some not. Nonfinancial factors include the School District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs, and other factors.

In the statement of net assets and the statement of activities, the School District discloses two types of activities:

**Governmental Activities** - Most of the School District's programs and services are reported here including instruction, support services, non-instructional services, and extracurricular activities. These services are primarily funded by property tax revenues and from intergovernmental revenues, including federal and state grants and other shared revenues.

**Business-Type Activities** - These services are provided on a charge for goods or services basis to recover all of the expenses of the goods or services provided. The Food Service, Uniform School Supplies, and Adult Education funds are reported as business-type activities.

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

Fund financial statements provide detailed information about the School District's major funds. While the School District uses many funds to account for its financial transactions, the fund financial statements focus on the School District's most significant funds. The School District's major funds are the General Fund and the Food Service enterprise fund.

**Governmental Funds** - The School District's governmental funds are used to account for the same programs reported as governmental activities on the government-wide financial statements. The School District's basic services are reported in these funds and focus on how money flows into and out of the funds as well as the balances available for spending at fiscal year end. These funds are reported using the modified accrual basis of accounting which measures cash and all other financial assets that can be readily converted to cash. The governmental fund financial statements provide a detailed short-term view of the School District's operations.

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities on the government-wide financial statements. By doing so, readers may better understand the long-term impact of the School District's short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to help make this comparison between governmental funds and governmental activities.

**Enterprise Funds** - Enterprise funds use the same basis of accounting as business-type activities; therefore, these statements are essentially the same.

Marion City School District  
Marion County  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2006  
Unaudited

Fiduciary Funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the School District. Fiduciary funds are not reflected on the government-wide financial statements because the resources from these funds are not available to support the School District's programs. These funds use the accrual basis of accounting.

**The School District as a Whole**

Table 1 provides a summary of the School District's net assets for fiscal year 2006 and fiscal year 2005:

Table 1  
Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
<u>Assets</u>						
Current and Other Assets	\$20,154,275	\$19,114,691	\$263,203	(\$14,164)	\$20,417,478	\$19,100,527
Capital Assets, Net	88,578,225	90,306,448	8,236,973	8,406,000	96,815,198	98,712,448
Total Assets	<u>108,732,500</u>	<u>109,421,139</u>	<u>8,500,176</u>	<u>8,391,836</u>	<u>117,232,676</u>	<u>117,812,975</u>
<u>Liabilities</u>						
Current and Other Liabilities	11,550,395	13,806,200	133,026	241,228	11,683,421	14,047,428
Long-Term Liabilities	17,453,790	17,858,725	58,267	70,282	17,512,057	17,929,007
Total Liabilities	<u>29,004,185</u>	<u>31,664,925</u>	<u>191,293</u>	<u>311,510</u>	<u>29,195,478</u>	<u>31,976,435</u>
<u>Net Assets</u>						
Invested in Capital Assets, Net of Related Debt	75,769,413	76,693,870	8,236,973	8,406,000	84,006,386	85,099,870
Restricted	4,000,081	3,838,132	0	0	4,000,081	3,838,132
Unrestricted (Deficit)	(41,179)	(2,775,788)	71,910	(325,674)	30,731	(3,101,462)
Total Net Assets	<u>\$79,728,315</u>	<u>\$77,756,214</u>	<u>\$8,308,883</u>	<u>\$8,080,326</u>	<u>\$88,037,198</u>	<u>\$85,836,540</u>

A review of the above table demonstrates that for governmental activities, the overall change in total assets and total liabilities was not significant. However, there are two items of note. Within current and other assets, cash and cash equivalents increased \$2.8 million over the prior fiscal year end balance. This is simply from not spending resources received during the fiscal year. In addition, within current and other liabilities, accrued wages and benefits decreased over \$926,000, along with a decrease in the corresponding pension related liabilities. This decrease was due to cost reductions implemented by the School District. Primarily as a result of these events, unrestricted net assets reflect a significant improvement over fiscal year 2005.

For business-type activities, total assets did not change significantly; however, current and other assets reflect a sizable increase. This is due to grant monies owed to the School District for food service operations at fiscal year end. As with governmental activities, business-type activities also had a significant decrease in accrued wages and benefits, over \$71,000, along with a decrease in the associated pension related liabilities resulting from cost reductions. The combination of these factors led to the increase in unrestricted net assets.



Marion City School District  
Marion County  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2006  
Unaudited

Table 2 reflects the change in net assets for fiscal year 2006 and fiscal year 2005.

Table 2  
Change in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
<u>Revenues</u>						
<u>Program Revenues</u>						
Charges for Services	\$2,157,091	\$2,154,028	\$596,573	\$733,569	\$2,753,664	\$2,887,597
Operating Grants, Contributions, and Interest	10,916,568	7,742,416	1,525,686	1,154,360	12,442,254	8,896,776
Capital Grants and Contributions	126,369	0	0	0	126,369	0
<b>Total Program Revenues</b>	<b>13,200,028</b>	<b>9,896,444</b>	<b>2,122,259</b>	<b>1,887,929</b>	<b>15,322,287</b>	<b>11,784,373</b>
<u>General Revenues</u>						
Property Taxes Levied for General Purposes	9,317,344	10,588,671	0	0	9,317,344	10,588,671
Property Taxes Levied for Classroom Facilities Purposes	140,519	142,626	0	0	140,519	142,626
Property Taxes Levied for Debt Service Purposes	1,085,476	1,092,953	0	0	1,085,476	1,092,953
Payment in Lieu of Taxes	192,718	167,035	0	0	192,718	167,035
Grants and Entitlements	25,439,228	29,459,377	0	0	25,439,228	29,459,377
Interest	279,915	155,805	0	0	279,915	155,805
Gifts and Donations	18,178	0	0	0	18,178	0
Miscellaneous	421,853	308,740	27,269	9,352	449,122	318,092
<b>Total General Revenues</b>	<b>36,895,231</b>	<b>41,915,207</b>	<b>27,269</b>	<b>9,352</b>	<b>36,922,500</b>	<b>41,924,559</b>
<b>Total Revenues</b>	<b>50,095,259</b>	<b>51,811,651</b>	<b>2,149,528</b>	<b>1,897,281</b>	<b>52,244,787</b>	<b>53,708,932</b>
<u>Expenses</u>						
<u>Instruction:</u>						
Regular	24,814,982	23,954,732	0	0	24,814,982	23,954,732
Special	5,582,136	5,664,401	0	0	5,582,136	5,664,401
Vocational	430,724	455,889	0	0	430,724	455,889
Adult/Continuing	75,739	88,763	0	0	75,739	88,763
<u>Support Services:</u>						
Pupils	2,046,048	2,094,960	0	0	2,046,048	2,094,960
Instructional Staff	3,701,893	2,398,664	0	0	3,701,893	2,398,664
Board of Education	94,574	111,738	0	0	94,574	111,738
Administration	2,966,591	3,448,266	0	0	2,966,591	3,448,266
Fiscal	650,570	536,378	0	0	650,570	536,378
Business	363,109	365,753	0	0	363,109	365,753
Operation of Maintenance of Plant	4,159,349	4,243,292	0	0	4,159,349	4,243,292
Pupil Transportation	801,193	667,897	0	0	801,193	667,897
Non-Instructional Services	854,838	926,751	0	0	854,838	926,751
Extracurricular Activities	776,237	707,113	0	0	776,237	707,113
Interest and Fiscal Charges	805,175	820,709	0	0	805,175	820,709
Food Service	0	0	1,891,882	1,911,354	1,891,882	1,911,354
Uniform School Supplies	0	0	14,021	14,507	14,021	14,507
Adult Education	0	0	15,068	47,645	15,068	47,645
<b>Total Expenses</b>	<b>48,123,158</b>	<b>46,485,306</b>	<b>1,920,971</b>	<b>1,973,506</b>	<b>50,044,129</b>	<b>48,458,812</b>

(continued)

Marion City School District  
Marion County  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2006  
Unaudited

Table 2  
Change in Net Assets  
(continued)

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Increase (Decrease) in Net Assets Before Transfers	1,972,101	5,326,345	228,557	(76,225)	2,200,658	5,250,120
Transfers	0	(220,861)	0	220,861	0	0
Increase in Net Assets	1,972,101	5,105,484	228,557	144,636	2,200,658	5,250,120
Net Assets at Beginning of Year	77,756,214	72,650,730	8,080,326	7,935,690	85,836,540	80,586,420
Net Assets at End of Year	\$79,728,315	\$77,756,214	\$8,308,883	\$8,080,326	\$88,037,198	\$85,836,540

For governmental activities, operating grants and contributions realized an increase of over \$3.1 million which, in turn, led to an overall increase in program revenues of 33 percent. For fiscal year 2006, the School District received greater funding for Poverty Based Assistance, IDEA-B, and Title I programs. In addition, a Reading First grant was received, and it alone was almost \$2 million. For general revenues, note the 12 percent decrease in property taxes levied for general purposes. This was due to the loss of a 3.93 mill levy renewal. In addition, note the \$4 million decrease in grants and entitlements. In the prior fiscal year, the School District was still receiving resources from the Ohio School Facilities Commission. With the conclusion of the School District's building program, these resources are no longer being received. As a result, the School District had not only a decrease in general revenues for fiscal year 2006 but a decrease in total revenues.

With the exception of the instructional staff and administration programs, expenses for governmental activities were fairly comparable to fiscal year 2005. The increase in the instructional staff program is the result of additions resulting from the Reading First grant received by the School District. The decrease in the administration program is due to cost reductions.

For business-type activities, there was a decrease in charges for services due to reduced cafeteria sales. The School District provided more free and reduced price lunches in fiscal year 2006. The increase in operating grants and contributions is from an increase in federal food subsidies. Expenses for business-type activities did not change significantly.

Table 3 indicates the total cost of services and the net cost of services for governmental activities. The statement of activities reflects the cost of program services and the charges for services, grants, and contributions offsetting those services. The net cost of services identifies the cost of those services supported by tax revenues and unrestricted state entitlements.

Table 3  
Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2006	2005	2006	2005
Instruction:				
Regular	\$24,814,982	\$23,954,732	\$18,223,517	\$20,492,797
Special	5,582,136	5,664,401	(255,348)	1,532,419
Vocational	430,724	455,889	305,252	316,330
Adult/Continuing	75,739	88,763	(61,889)	23,839

(continued)



Marion City School District  
Marion County  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2006  
Unaudited

Table 3  
Governmental Activities  
(continued)

	Total Cost of Services		Net Cost of Services	
	2006	2005	2006	2005
Support Services:				
Pupils	\$2,046,048	\$2,094,960	\$2,046,048	\$1,979,320
Instructional Staff	3,701,893	2,398,664	3,701,893	1,055,355
Board of Education	94,574	111,738	94,574	111,738
Administration	2,966,591	3,448,266	2,966,591	3,215,362
Fiscal	650,570	536,378	650,570	534,212
Business	363,109	365,753	363,109	365,753
Operation and Maintenance of Plant	4,159,349	4,243,292	4,159,349	4,225,604
Pupil Transportation	801,193	667,897	617,421	559,787
Non-Instructional Services	854,838	926,751	720,328	926,751
Extracurricular Activities	776,237	707,113	586,540	428,886
Interest and Fiscal Charges	805,175	820,709	805,175	820,709
Total Expenses	<u>\$48,123,158</u>	<u>\$46,485,306</u>	<u>\$34,923,130</u>	<u>\$36,588,862</u>

The School District's dependence on tax revenues and unrestricted state entitlements is and will continue to be significant. However, as demonstrated above, all of the School District's instruction programs receive some funding through program revenues. For example, the regular instruction program provided for 19 percent of its costs through operating grants in fiscal year 2006 and the vocational program's operating grants provided for 29 percent of its costs. Both the special instruction and adult/continuing programs received program revenues in excess of its costs in fiscal year 2006. This is almost entirely from operating grants restricted for special instruction purposes as well as continuing education of adults. For fiscal year 2006, the remainder of the School District's programs had to be primarily supported through general revenues.

### The School District's Funds

The School District's governmental funds are accounted for using the modified accrual basis of accounting. The School District's only major governmental fund is the General Fund and its fund balance more than doubled from fiscal year 2005. While revenues remained fairly comparable to the prior fiscal year, expenditures decreased in excess of \$2 million due to cost cutting measures. In addition, the General Fund did not subsidize food service operations to the level of prior fiscal years.

### Business-Type Activities

The School District's major enterprise fund accounts for food service operations. While this fund continues to reflect an operating loss, federal and state subsidies make up for this difference and the fund actually experienced an increase in net assets.



Marion City School District  
Marion County  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2006  
Unaudited

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**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.

For revenues, there was no change from the original budget to the final budget; however, while not that significant, there was an almost 6 percent increase from the final budget to actual revenues. This was largely due to tuition and fees revenues for open enrollment.

For expenditures, changes from the original budget to the final budget and from the final budget to actual expenditures were not significant, although the School District was able to realize savings in almost all expenditure categories.

**Capital Assets and Debt Administration**

**Capital Assets**

At the end of fiscal year 2006, the School District had \$88,578,225 invested in capital assets (net of accumulated depreciation) for governmental activities, a decrease of less than 2 percent. This decrease is the result of accumulated depreciation expense in excess of capital asset additions.

Business-type activities had \$8,236,973 invested in capital assets (net of accumulated depreciation), also a decrease of 2 percent and also the result of accumulated depreciation.

For further information regarding the School District's capital assets, refer to Note 10 to the basic financial statements.

**Debt**

At June 30, 2006, the School District had outstanding general obligation bonds, in the amount of \$13,785,000 and capital leases, in the amount of \$264,462, for governmental activities.

In addition to the debt outlined above, the School District's long-term obligations also include compensated absences. For further information regarding the School District's long-term obligations, refer to Note 16 to the basic financial statements.

**Current Issues**

In November 2006, the School District renewed a 5.53 mill five-year operating levy that generates a little over \$2 million. Due to projected deficits in the School District's five-year forecast for fiscal years 2009 through 2011, the School District will need to ask the tax payers for a new emergency levy sometime during calendar year 2007.

Marion City School District  
Marion County  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2006  
Unaudited

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**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 reflect the School District's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Robert Wood, Treasurer, Marion City School District, 910 East Church Street, Marion, Ohio 43302.

Marion City School District  
Marion County  
Statement of Net Assets  
June 30, 2006

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Marion City Digital Academy
<u>Assets:</u>				
Equity in Pooled Cash and Cash Equivalents	\$7,985,899	\$101,786	\$8,087,685	\$171,751
Cash and Cash Equivalents with Fiscal Agent	366	0	366	0
Accounts Receivable	102,270	0	102,270	0
Internal Balances	63,121	(63,121)	0	0
Intergovernmental Receivable	691,709	180,904	872,613	0
Due from Component Unit	60,026	0	60,026	0
Prepaid Items	57,295	0	57,295	0
Inventory Held for Resale	0	33,724	33,724	0
Materials and Supplies Inventory	120,897	9,910	130,807	0
Property Taxes Receivable	11,072,692	0	11,072,692	0
Nondepreciable Capital Assets	1,965,229	151,853	2,117,082	0
Depreciable Capital Assets, Net	86,612,996	8,085,120	94,698,116	63,059
Total Assets	<u>108,732,500</u>	<u>8,500,176</u>	<u>117,232,676</u>	<u>234,810</u>
<u>Liabilities:</u>				
Accounts Payable	307,764	485	308,249	5,612
Accrued Wages and Benefits Payable	3,823,163	79,748	3,902,911	9,636
Intergovernmental Payable	845,092	52,793	897,885	18,664
Due to Primary Government	0	0	0	60,026
Matured Interest Payable	366	0	366	0
Deferred Revenue	6,510,111	0	6,510,111	0
Accrued Interest Payable	63,899	0	63,899	0
Long-Term Liabilities:				
Due Within One Year	1,099,663	8,357	1,108,020	0
Due in More Than One Year	16,354,127	49,910	16,404,037	0
Total Liabilities	<u>29,004,185</u>	<u>191,293</u>	<u>29,195,478</u>	<u>93,938</u>
<u>Net Assets:</u>				
Invested in Capital Assets, Net of Related Debt	75,769,413	8,236,973	84,006,386	63,059
Restricted For:				
Debt Service	889,923	0	889,923	0
Capital Projects	379,241	0	379,241	0
Setasides	1,469,370	0	1,469,370	0
Other Purposes	1,259,103	0	1,259,103	0
Music Education				
Nonexpendable	2,444	0	2,444	0
Unrestricted (Deficit)	(41,179)	71,910	30,731	77,813
Total Net Assets	<u>\$79,728,315</u>	<u>\$8,308,883</u>	<u>\$88,037,198</u>	<u>\$140,872</u>

See Accompanying Notes to the Basic Financial Statements

Marion City School District  
Marion County  
Statement of Activities  
For the Fiscal Year Ended June 30, 2006

	<u>Program Revenues</u>			
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants, Contributions, and Interest</u>	
<b><u>Governmental Activities:</u></b>				
Instruction:				
Regular	\$24,814,982	\$1,883,741	\$4,651,532	\$56,192
Special	5,582,136	35,218	5,802,266	0
Vocational	430,724	0	125,472	0
Adult/Continuing	75,739	0	137,628	0
Support Services:				
Pupils	2,046,048	0	0	0
Instructional Staff	3,701,893	0	0	0
Board of Education	94,574	0	0	0
Administration	2,966,591	0	0	0
Fiscal	650,570	0	0	0
Business	363,109	0	0	0
Operation and Maintenance of Plant	4,159,349	0	0	0
Pupil Transportation	801,193	60,859	52,736	70,177
Non-Instructional Services	854,838	0	134,510	0
Extracurricular Activities	776,237	177,273	12,424	0
Interest and Fiscal Charges	805,175	0	0	0
Total Governmental Activities	<u>48,123,158</u>	<u>2,157,091</u>	<u>10,916,568</u>	<u>126,369</u>
<b><u>Business-Type Activities:</u></b>				
Food Service	1,891,882	555,180	1,525,686	0
Other Enterprise Fund				
Uniform School Supplies	14,021	18,293	0	0
Adult Education	15,068	23,100	0	0
Total Business-Type Activities	<u>1,920,971</u>	<u>596,573</u>	<u>1,525,686</u>	<u>0</u>
Total Primary Government	<u>\$50,044,129</u>	<u>\$2,753,664</u>	<u>\$12,442,254</u>	<u>\$126,369</u>
<b><u>Component Unit</u></b>				
Marion City Digital Academy	<u>\$812,762</u>	<u>\$0</u>	<u>\$161,739</u>	<u>\$0</u>

**General Revenues:**

Property Taxes Levied for General Purposes  
Property Taxes Levied for Classroom Facilities Purposes  
Property Taxes Levied for Debt Service Purposes  
Payment in Lieu of Taxes  
Grants and Entitlements not Restricted to Specific Programs  
Interest  
Gifts and Donations  
Miscellaneous  
**Total General Revenues**

**Change in Net Assets**

Net Assets at Beginning of Year - Restated (Note 3)  
Net Assets at End of Year

Net (Expense) Revenue  
and Change in Net Assets

Primary Government			Component Unit
Governmental Activities	Business-Type Activities	Total	Marion City Digital Academy
(\$18,223,517)	\$0	(\$18,223,517)	\$0
255,348	0	255,348	0
(305,252)	0	(305,252)	0
61,889	0	61,889	0
(2,046,048)	0	(2,046,048)	0
(3,701,893)	0	(3,701,893)	0
(94,574)	0	(94,574)	0
(2,966,591)	0	(2,966,591)	0
(650,570)	0	(650,570)	0
(363,109)	0	(363,109)	0
(4,159,349)	0	(4,159,349)	0
(617,421)	0	(617,421)	0
(720,328)	0	(720,328)	0
(586,540)	0	(586,540)	0
(805,175)	0	(805,175)	0
<u>(34,923,130)</u>	<u>0</u>	<u>(34,923,130)</u>	<u>0</u>
0	188,984	188,984	0
0	4,272	4,272	0
0	8,032	8,032	0
0	201,288	201,288	0
<u>(34,923,130)</u>	<u>201,288</u>	<u>(34,721,842)</u>	<u>0</u>
0	0	0	(651,023)
9,317,344	0	9,317,344	0
140,519	0	140,519	0
1,085,476	0	1,085,476	0
192,718	0	192,718	0
25,439,228	0	25,439,228	732,860
279,915	0	279,915	1,289
18,178	0	18,178	0
421,853	27,269	449,122	111
<u>36,895,231</u>	<u>27,269</u>	<u>36,922,500</u>	<u>734,260</u>
1,972,101	228,557	2,200,658	83,237
77,756,214	8,080,326	85,836,540	57,635
<u>\$79,728,315</u>	<u>\$8,308,883</u>	<u>\$88,037,198</u>	<u>\$140,872</u>

See Accompanying Notes to the Basic Financial Statements



Marion City School District  
Marion County  
Balance Sheet  
Governmental Funds  
June 30, 2006

	General	Other Governmental	Total Governmental Funds
<u>Assets:</u>			
Equity in Pooled Cash and Cash Equivalents	\$3,724,954	\$2,791,575	\$6,516,529
Cash and Cash Equivalents			
with Fiscal Agent	0	366	366
Accounts Receivable	102,270	0	102,270
Interfund Receivable	116,120	0	116,120
Intergovernmental Receivable	56,073	635,636	691,709
Due from Component Unit	60,026	0	60,026
Prepaid Items	57,295	0	57,295
Materials and Supplies Inventory	120,897	0	120,897
<u>Restricted Assets:</u>			
Equity in Pooled Cash and Cash Equivalents	1,469,370	0	1,469,370
Property Taxes Receivable	9,755,665	1,317,027	11,072,692
Total Assets	<u>\$15,462,670</u>	<u>\$4,744,604</u>	<u>\$20,207,274</u>
<u>Liabilities and Fund Balances:</u>			
<u>Liabilities</u>			
Accounts Payable	\$118,199	\$189,565	\$307,764
Accrued Wages and Benefits Payable	3,172,064	651,099	3,823,163
Interfund Payable	0	52,999	52,999
Intergovernmental Payable	694,948	150,144	845,092
Matured Interest Payable	0	366	366
Deferred Revenue	6,983,062	972,202	7,955,264
Total Liabilities	<u>10,968,273</u>	<u>2,016,375</u>	<u>12,984,648</u>
<u>Fund Balances:</u>			
Reserved for Property Taxes	2,872,039	412,664	3,284,703
Reserved for Textbooks	1,469,370	0	1,469,370
Reserved for Encumbrances	643,612	723,177	1,366,789
Reserved for Music Education	0	2,444	2,444
<u>Unreserved Reported in:</u>			
General Fund (Deficit)	(490,624)	0	(490,624)
Special Revenue Funds	0	874,298	874,298
Debt Service Fund	0	444,620	444,620
Capital Projects Funds	0	271,026	271,026
Total Fund Balances	<u>4,494,397</u>	<u>2,728,229</u>	<u>7,222,626</u>
Total Liabilities and Fund Balances	<u>\$15,462,670</u>	<u>\$4,744,604</u>	<u>\$20,207,274</u>

See Accompanying Notes to the Basic Financial Statements

Marion City School District  
Marion County  
Reconciliation of Total Governmental Fund Balances  
to Net Assets of Governmental Activities  
June 30, 2006

Total Governmental Fund Balances		\$ 7,222,626
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Amounts reported for governmental activities on the statement of net assets are different because of the following:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		88,578,225
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Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds:

Accounts Receivable	\$ 99,288	
Intergovernmental Receivable	67,987	
Property Taxes Receivable	<u>1,277,878</u>	
		1,445,153

Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds:

Accrued Interest Payable	(63,899)	
General Obligation Bonds Payable	(13,785,000)	
Compensated Absences Payable	(3,404,328)	
Capital Leases Payable	<u>(264,462)</u>	
		<u>(17,517,689)</u>

Net Assets of Governmental Activities		<u>\$ 79,728,315</u>
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Marion City School District  
Marion County  
Statement of Revenues, Expenditures, and Changes in Fund Balances  
Governmental Funds  
For the Fiscal Year Ended June 30, 2006

	General	Other Governmental	Total Governmental Funds
<u>Revenues:</u>			
Property Taxes	\$9,426,595	\$1,240,311	\$10,666,906
Payment in Lieu of Taxes	192,718	0	192,718
Intergovernmental	28,004,871	8,458,335	36,463,206
Interest	273,244	6,711	279,955
Tuition and Fees	1,882,680	0	1,882,680
Extracurricular Activities	84,753	85,114	169,867
Gifts and Donations	5,250	14,490	19,740
Miscellaneous	110,875	75,943	186,818
Total Revenues	<u>39,980,986</u>	<u>9,880,904</u>	<u>49,861,890</u>
<u>Expenditures:</u>			
Current:			
Instruction:			
Regular	19,890,422	3,285,961	23,176,383
Special	3,834,237	1,530,778	5,365,015
Vocational	381,650	0	381,650
Adult/Continuing	9,544	65,878	75,422
Support Services:			
Pupils	1,908,591	126,336	2,034,927
Instructional Staff	911,451	2,523,038	3,434,489
Board of Education	94,574	0	94,574
Administration	2,642,754	262,855	2,905,609
Fiscal	608,271	30,182	638,453
Operation and Maintenance of Plant	357,955	0	357,955
Pupil Transportation	4,109,023	191,271	4,300,294
Central	751,509	108,551	860,060
Non-Instructional Services	749,521	105,570	855,091
Extracurricular Activities	492,160	136,020	628,180
Capital Outlay	18,144	166,474	184,618
Debt Service:			
Principal Retirement	64,461	819,576	884,037
Interest and Fiscal Charges	16,479	801,830	818,309
Total Expenditures	<u>36,840,746</u>	<u>10,154,320</u>	<u>46,995,066</u>
Excess of Revenues Over (Under) Expenditures	<u>3,140,240</u>	<u>(273,416)</u>	<u>2,866,824</u>
<u>Other Financing Sources (Uses):</u>			
Sale of Capital Assets	0	343,446	343,446
Inception of Capital Lease	132,125	12,604	144,729
Transfers In	0	54,366	54,366
Transfers Out	(54,366)	0	(54,366)
Total Other Financing Sources (Uses)	<u>77,759</u>	<u>410,416</u>	<u>488,175</u>
Changes in Fund Balances	3,217,999	137,000	3,354,999
Fund Balances at Beginning of Year-Restated (Note 3)	<u>1,276,398</u>	<u>2,591,229</u>	<u>3,867,627</u>
Fund Balances at End of Year	<u>\$4,494,397</u>	<u>\$2,728,229</u>	<u>\$7,222,626</u>

See Accompanying Notes to the Basic Financial Statements

Marion City School District  
Marion County  
Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances  
of Governmental Funds to Statement of Activities  
For the Fiscal Year Ended June 30, 2006

Changes in Fund Balances - Total Governmental Funds \$3,354,999

Amounts reported for governmental activities on the statement of activities are different because of the following:

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

Capital Outlay	\$ 269,344	
Depreciation	<u>(1,960,234)</u>	(1,690,890)

The proceeds from the sale of capital assets are reported as other financing sources in the governmental funds. However, the cost of the capital assets is removed from the capital asset account on the statement of net assets and is offset against the proceeds from the sale of capital assets resulting in a gain on disposal of capital assets on the statement of activities.

Proceeds from Sale of Capital Assets	(343,446)	
Gain on Disposal of Capital Assets	<u>306,113</u>	(37,333)

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

Property Taxes	(123,567)	
Intergovernmental	(48,465)	
Tuition and Fees	97,138	
Miscellaneous	<u>2,150</u>	(72,744)

Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets.

884,037

The termination of a capital lease is not reflected in the governmental funds but the termination reduces long-term liabilities on the statement of net assets.

106,758

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

13,134

The inception of a capital lease is reported as an other financing source in governmental funds, but increases long-term liabilities on the statement of net assets.

(144,729)

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

(441,131)

Change in Net Assets of Governmental Activities

\$ 1,972,101

See Accompanying Notes to the Basic Financial Statements

Marion City School District  
Marion County  
Statement of Revenues, Expenditures, and Changes in Fund Balance  
Budget (Non-GAAP Basis) and Actual  
General Fund  
For the Fiscal Year Ended June 30, 2006

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
<u>Revenues:</u>				
Property Taxes	\$9,835,383	\$9,835,383	\$10,076,334	\$240,951
Payment in Lieu of Taxes	175,000	175,000	192,718	17,718
Intergovernmental	28,068,552	28,068,552	28,004,871	(63,681)
Interest	140,000	140,000	273,244	133,244
Tuition and Fees	148,500	148,500	1,968,016	1,819,516
Extracurricular Activities	70,000	70,000	84,753	14,753
Gifts and Donations	5,000	5,000	5,250	250
Miscellaneous	17,500	17,500	58,690	41,190
Total Revenues	<u>38,459,935</u>	<u>38,459,935</u>	<u>40,663,876</u>	<u>2,203,941</u>
<u>Expenditures:</u>				
<u>Current:</u>				
<u>Instruction:</u>				
Regular	21,527,577	21,184,014	20,809,824	374,190
Special	4,271,919	4,221,919	4,058,601	163,318
Vocational	387,133	417,134	405,959	11,175
Adult/Continuing	28,173	28,173	16,835	11,338
<u>Support Services:</u>				
Pupils	1,950,256	2,050,257	2,011,370	38,887
Instructional Staff	1,007,987	1,075,986	1,011,237	64,749
Board of Education	95,496	92,496	79,480	13,016
Administration	3,297,462	3,183,263	2,887,838	295,425
Fiscal	541,354	577,355	619,683	(42,328)
Business	408,638	414,837	371,563	43,274
Operation and Maintenance of Plant	4,626,123	4,753,123	4,679,550	73,573
Pupil Transportation	705,205	893,768	861,577	32,191
Non-Instructional Services	798,537	768,537	750,202	18,335
Extracurricular Activities	550,822	531,102	514,387	16,715
Capital Outlay	27,936	28,290	26,004	2,286
<u>Debt Service:</u>				
Principal Retirement	19,050	19,050	19,050	0
Interest and Fiscal Charges	131	131	125	6
Total Expenditures	<u>40,243,799</u>	<u>40,239,435</u>	<u>39,123,285</u>	<u>1,116,150</u>
Excess of Revenues Over (Under) Expenditures	<u>(1,783,864)</u>	<u>(1,779,500)</u>	<u>1,540,591</u>	<u>3,320,091</u>
<u>Other Financing Sources (Uses):</u>				
Refund of Prior Year Expenditures	0	0	10,121	10,121
Transfers Out	(50,000)	(54,366)	(54,366)	0
Total Other Financing Sources (Uses)	<u>(50,000)</u>	<u>(54,366)</u>	<u>(44,245)</u>	<u>10,121</u>
Changes in Fund Balance	(1,833,864)	(1,833,866)	1,496,346	3,330,212
Fund Balance at Beginning of Year	2,271,711	2,271,711	2,271,711	0
Prior Year Encumbrances Appropriated	793,502	793,502	793,502	0
Fund Balance at End of Year	<u>\$1,231,349</u>	<u>\$1,231,347</u>	<u>\$4,561,559</u>	<u>\$3,330,212</u>

See Accompanying Notes to the Basic Financial Statements



Marion City School District  
Marion County  
Statement of Fund Net Assets  
Enterprise Funds  
June 30, 2006

	Food Service	Other Enterprise	Total Enterprise Funds
<u>Assets:</u>			
<u>Current Assets:</u>			
Equity in Pooled Cash and Cash Equivalents	\$0	\$101,786	\$101,786
Intergovernmental Receivable	180,904	0	180,904
Inventory Held for Resale	33,724	0	33,724
Materials and Supplies Inventory	9,910	0	9,910
Total Current Assets	224,538	101,786	326,324
<u>Non-Current Assets:</u>			
Nondepreciable Capital Assets	151,853	0	151,853
Depreciable Capital Assets, Net	8,081,349	3,771	8,085,120
Total Non-Current Assets	8,233,202	3,771	8,236,973
Total Assets	8,457,740	105,557	8,563,297
<u>Liabilities:</u>			
<u>Current Liabilities:</u>			
Accounts Payable	0	485	485
Accrued Wages and Benefits Payable	79,748	0	79,748
Interfund Payable	63,121	0	63,121
Intergovernmental Payable	52,793	0	52,793
Compensated Absences Payable	8,357	0	8,357
Total Current Liabilities	204,019	485	204,504
<u>Non-Current Liabilities</u>			
Compensated Absences Payable	49,910	0	49,910
Total Liabilities	253,929	485	254,414
<u>Net Assets:</u>			
Invested in Capital Assets	8,233,202	3,771	8,236,973
Unrestricted (Deficit)	(29,391)	101,301	71,910
Total Net Assets	\$8,203,811	\$105,072	\$8,308,883

See Accompanying Notes to the Basic Financial Statements

Marion City School District  
Marion County  
Statement of Revenues, Expenses, and Changes in Fund Net Assets  
Enterprise Funds  
For the Fiscal Year Ended June 30, 2006

	<u>Food Service</u>	<u>Other Enterprise</u>	<u>Total Enterprise Funds</u>
<u>Operating Revenues:</u>			
Sales	\$555,180	\$18,293	\$573,473
Charges for Services	0	23,100	23,100
Other Operating Revenues	27,269	0	27,269
Total Operating Revenues	<u>582,449</u>	<u>41,393</u>	<u>623,842</u>
<u>Operating Expenses:</u>			
Salaries	482,588	1,600	484,188
Fringe Benefits	177,033	444	177,477
Purchased Services	108,484	1,792	110,276
Materials and Supplies	140,581	10,621	151,202
Cost of Sales	814,780	14,021	828,801
Depreciation	168,416	611	169,027
Total Operating Expenses	<u>1,891,882</u>	<u>29,089</u>	<u>1,920,971</u>
Operating Income (Loss)	<u>(1,309,433)</u>	<u>12,304</u>	<u>(1,297,129)</u>
<u>Non-Operating Revenues</u>			
Federal Donated Commodities	98,427	0	98,427
Operating Grants	1,427,259	0	1,427,259
Total Non-Operating Revenues	<u>1,525,686</u>	<u>0</u>	<u>1,525,686</u>
Changes in Net Assets	216,253	12,304	228,557
Net Assets at Beginning of Year - Restated (Note 3)	<u>7,987,558</u>	<u>92,768</u>	<u>8,080,326</u>
Net Assets at End of Year	<u><u>\$8,203,811</u></u>	<u><u>\$105,072</u></u>	<u><u>\$8,308,883</u></u>

See Accompanying Notes to the Basic Financial Statements

Marion City School District  
Marion County  
Statement of Cash Flows  
Enterprise Funds  
For the Fiscal Year Ended June 30, 2006

	Food Service	Other Enterprise	Total Enterprise Funds
<u>Increase (Decrease) in Cash and Cash Equivalents</u>			
<u>Cash Flows from Operating Activities:</u>			
Cash Received from Customers	\$555,372	\$42,033	\$597,405
Cash Received from Other Revenues	27,269	0	27,269
Cash Payments for Salaries	(514,944)	(3,200)	(518,144)
Cash Payments for Fringe Benefits	(243,760)	(481)	(244,241)
Cash Payments for Goods and Services	(958,809)	(27,717)	(986,526)
Net Cash Provided by (Used for) Operating Activities	(1,134,872)	10,635	(1,124,237)
<u>Cash Flows from Noncapital Financing Activities:</u>			
Cash Received from Operating Grants	1,246,355	0	1,246,355
Cash Payments to Other Funds	(111,483)	0	(111,483)
Net Cash Provided by Noncapital Financing Activities	1,134,872	0	1,134,872
Net Increase in Cash and Cash Equivalents	0	10,635	10,635
Cash and Cash Equivalents at Beginning of Year	0	91,151	91,151
Cash and Cash Equivalents at End of Year	\$0	\$101,786	\$101,786
<u>Reconciliation of Operating Income (Loss)</u>			
<u>to Net Cash Provided by (Used for) Operating Activities:</u>			
Operating Income (Loss)	(\$1,309,433)	\$12,304	(\$1,297,129)
<u>Adjustments to Reconcile Operating Income (Loss)</u>			
<u>to Net Cash Provided by (Used for) Operating Activities:</u>			
Depreciation	168,416	611	169,027
Donated Commodities Received During Year	98,427	0	98,427
Changes in Assets and Liabilities:			
Decrease in Accounts Receivable	192	640	832
Decrease in Inventory Held for Resale	23,937	0	23,937
Decrease in Materials and Supplies Inventory	886	0	886
Decrease in Accounts Payable	(18,214)	(1,283)	(19,497)
Decrease in Accrued Wages and Benefits Payable	(69,439)	0	(69,439)
Decrease in Intergovernmental Payable	(17,629)	(37)	(17,666)
Decrease in Compensated Absences Payable	(12,015)	(1,600)	(13,615)
Net Cash Provided by (Used for) Operating Activities	(\$1,134,872)	\$10,635	(\$1,124,237)

See Accompanying Notes to the Basic Financial Statements

Marion City School District  
Marion County  
Statement of Fiduciary Net Assets  
Fiduciary Funds  
June 30, 2006

	Private Purpose Trust	Agency
<u>Assets:</u>		
Equity in Pooled Cash and Cash Equivalents	\$109,682	\$79,111
 <u>Liabilities:</u>		
Undistributed Assets	0	\$727
Due to Students	0	78,384
Total Liabilities	0	\$79,111
 <u>Net Assets:</u>		
Held in Trust for Scholarships	11,239	
Endowments	98,443	
Total Net Assets	\$109,682	

See Accompanying Notes to the Basic Financial Statements



Marion City School District  
Marion County  
Statement of Change in Fiduciary Net Assets  
Private Purpose Trust Fund  
For the Fiscal Year Ended June 30, 2006

Additions:

Interest	\$1,728
Gifts and Donations	1,109
Total Additions	<u>2,837</u>

Deductions:

Non-Instructional Services	<u>1,500</u>
Change in Net Assets	1,337
Net Assets at Beginning of Year	<u>108,345</u>
Net Assets at End of Year	<u><u>\$109,682</u></u>

See Accompanying Notes to the Basic Financial Statements

Marion City School District  
Marion County  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006

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**Note 1 - Description of the School District and Reporting Entity**

Marion City 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 and federal guidelines.

The School District was established in 1853. The School District serves an area of approximately nine square miles. It is located in Marion County. The School District is the 62nd largest in the State of Ohio (among 612 school districts) in terms of enrollment. It is staffed by one hundred sixty-seven classified employees, four hundred three teaching personnel, and twenty-seven administrative employees who provide services to 5,101 students and other community members. The School District currently operates six elementary schools, a middle school, and a high school.

**Reporting Entity**

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

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

The component unit column on the financial statements identifies the financial data of the School District's component unit, Marion City Digital Academy (MCDA). It is reported separately to emphasize that it is legally separate from the School District. Information about this component unit is presented in Note 24 to the basic financial statements.

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

Marion City School District  
Marion County  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006

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**Note 1 - Description of the School District and Reporting Entity (continued)**

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

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

The School District is participates in four jointly governed organizations, two insurance pools, and a related organization. These organizations are the Tri-Rivers Educational Computer Association (TRECA), Tri-Rivers Joint Vocational School, North Central Regional Professional Development Center, North Central Ohio Special Education Regional Resource Center, Ohio School Plan, Ohio Association of School Business Officials Workers' Compensation Group Rating Plan, and the Marion Public Library. These organizations are presented in Notes 21, 22, and 23 to the basic financial statements.

**Note 2 - Summary of Significant Accounting Policies**

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

**A. Basis of Presentation**

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

**Government-Wide Financial Statements**

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



Marion City School District  
Marion County  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006

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**Note 2 - Summary of Significant Accounting Policies (continued)**

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

**Fund Financial Statements**

During the fiscal 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. Fund financial statements are designed to present financial information of the School District at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

**B. Fund Accounting**

The School District uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The funds of the School District are reported in three categories; governmental, proprietary, and fiduciary.

**Governmental Funds**

Governmental funds are those through which most governmental functions of the School District are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The School District's major governmental fund is the General Fund.

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

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



Marion City School District  
Marion County  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006

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**Note 2 - Summary of Significant Accounting Policies (continued)**

**Proprietary Funds**

Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows.

Enterprise Funds - Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The School District has one major enterprise fund.

Food Service - The Food Service enterprise fund accounts for the activities related to food service operations.

The other enterprise funds of the School District account for uniform school supplies and activities related to adult education.

**Fiduciary Funds**

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are not available to support the School District's own programs. The School District's private purpose trust fund accounts for programs that provide college scholarships to students after graduation. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's agency funds account for various student-managed activities and payroll withholdings and deductions.

**C. Measurement Focus**

**Government-Wide Financial Statements**

The government-wide financial statements are prepared using a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of the School District are included on the statement of net assets. The statement of activities presents increases (e.g. revenues) and decreases (e.g. expenses) in total net assets.

**Fund Financial Statements**

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The statement of revenues, expenditures, and changes in fund balances reflects the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the fund financial statements for governmental funds.

Marion City School District  
Marion County  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006

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**Note 2 - Summary of Significant Accounting Policies (continued)**

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

The private purpose trust fund is accounted for using a flow of economic resources measurement focus.

**D. Basis of Accounting**

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

**Revenues - Exchange and Nonexchange Transactions**

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

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

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

**Deferred Revenues**

Deferred revenues arise when assets are recognized before revenue recognition criteria has been satisfied.

Property taxes for which there was an enforceable legal claim as of June 30, 2006, but which were levied to finance fiscal year 2007 operations, are recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.



Marion City School District  
Marion County  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006

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**Note 2 - Summary of Significant Accounting Policies (continued)**

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

**Expenses/Expenditures**

On the accrual basis, expenses are recognized at the time they are incurred.

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

**E. Budgetary Process**

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount the Board of Education may appropriate. The appropriations resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Board. The legal level of control selected by the Board is at the fund level for all funds. Budgetary allocations at the function and object level within all funds are made by the School District Treasurer.

The certificate of estimated resources may be amended during the fiscal year if projected increases or decreases in revenue are identified by the Treasurer. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the amended certificate of estimated resources in effect at the time final appropriations were passed by the Board.

The appropriations resolution is subject to amendment throughout the fiscal year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriations 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.

**F. Cash and Investments**

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

Cash and cash equivalents held for the School District by Chase Bank, who services the School District's bond/coupon account, are included on the financial statements as "Cash and Cash Equivalents with Fiscal Agent".

Marion City School District  
Marion County  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006

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**Note 2 - Summary of Significant Accounting Policies (continued)**

During fiscal year 2006, investments were limited to STAR Ohio. STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2006.

The School District allocates interest earnings according to State statutes. Interest revenue credited to the General Fund during fiscal year 2006 was \$273,244, which includes \$254,546 assigned from other School District funds.

Investments of the School District's 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 presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months that were not purchased from the pool are reported as investments.

**G. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 2006, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is reported in the year in which services are consumed.

**H. Inventory**

Inventory is presented at cost on a first-in, first-out basis and is expended/expensed when used. Inventory consists of administrative supplies, custodial supplies, donated and purchased food, and workbooks.

**I. 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, contributors, grantors, laws of other governments, or imposed by law through constitutional provisions or enabling legislation. Restricted assets represent amounts required by State statute to be set aside for the purchase of textbooks and other instructional materials.

**J. Capital Assets**

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



Marion City School District  
Marion County  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006

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**Note 2 - Summary of Significant Accounting Policies (continued)**

All capital assets are capitalized at cost and updated for additions and reductions during the fiscal year. Donated capital assets are recorded at their fair market value on the date donated. The School District maintains a capitalization threshold of ten thousand dollars. The School District does not have any infrastructure. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Interest incurred during the construction of capital assets by the enterprise funds is also capitalized.

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

<u>Description</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Land Improvements	25 -50 years	n/a
Buildings and Building Improvements	20 - 100 years	25 - 100 years
Furniture, Fixtures, and Equipment	5 - 40 years	n/a
Vehicles	10 - 15 years	n/a

**K. Interfund Receivables/Payables**

On fund financial statements, receivables and payables resulting from short-term interfund loans are reported as "Interfund Receivables/Payables". Interfund balances are eliminated on the statement of net assets, except for any net residual amounts due between governmental and business-type activities. These amounts are presented as "Internal Balances".

**L. Compensated Absences**

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable the School District will compensate the employees for the benefits through paid time off or some other means. The School District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the School District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the School District's termination policy. The School District records a liability for accumulated unused sick leave for all employees after ten years of service.

**M. Accrued Liabilities and Long-Term Obligations**

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

Marion City School District  
Marion County  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006

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**Note 2 - Summary of Significant Accounting Policies (continued)**

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, compensated absences that are paid from governmental funds are reported as liabilities on the fund financial statements only to the extent that they are due for payment during the current fiscal year. Bonds and capital leases are recognized as a liability on the fund financial statements when due.

**N. Net Assets**

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

The School District's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. As of June 30, 2006, the School District did not have any net assets restricted by enabling legislation.

**O. Fund Balance Reserves and Designations**

The School District reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent available expendable resources and, therefore, are not available for appropriation or expenditure. Unreserved fund balance indicates that portion which is available for appropriation in future periods. Fund balance reserves have been established for property taxes, textbooks, encumbrances and music education. The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute.

**P. Operating Revenues and Expenses**

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

**Q. Interfund Transactions**

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



Marion City School District  
Marion County  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006

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**Note 2 - Summary of Significant Accounting Policies (continued)**

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

**R. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of management and are either unusual in nature or infrequent in occurrence.

**S. Estimates**

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

**Note 3 - Change in Accounting Principles, Correction of Errors, and Restatement of Fund Balance/Net Assets**

**A. Change in Accounting Principles**

For fiscal year 2006, the School District has implemented Governmental Accounting Standards Board (GASB) Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries". GASB Statement No. 42 establishes accounting and financial reporting standards for impairment of capital assets. The implementation of this statement did not result in any change to the School District's financial statements.

**B. Correction of Errors**

In the prior fiscal year, the School District reported several funds incorrectly and made errors in reporting capital leases and capital assets.

**C. Restatement of Fund Balance/Net Assets**

The restatement due to the above corrections had the following effect on fund balances of the major and nonmajor funds of the School District as they were previously reported.

	General	Other Governmental	Total Governmental Funds
Fund Balances June 30, 2005	\$1,276,398	\$2,592,267	\$3,868,665
Change in Fund Structure	0	(1,038)	(1,038)
Adjusted Fund Balance at June 30, 2005	\$1,276,398	\$2,591,229	\$3,867,627

Marion City School District  
Marion County  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006

**Note 3 - Change in Accounting Principles, Correction of Errors, and Restatement of Fund Balance/Net Assets (continued)**

The restatement had the following effect on net assets.

	Total Governmental Activities	Total Business-Type Activities
Net Assets at June 30, 2005	\$84,106,689	(\$280,666)
Change in Fund Structure	(1,038)	1,038
Capital Leases	(91,396)	0
Capital Assets	(27,190,209)	8,472,538
Accumulated Depreciation	20,932,168	(112,584)
Adjusted Governmental Activities Net Assets at June 30, 2005	\$77,756,214	
Adjusted Business-Type Activities Net Assets at June 30, 2005		\$8,080,326

**Note 4 - Accountability and Compliance**

**A. Accountability**

At June 30, 2006, the following funds had deficit fund balances:

Fund Type/Fund	Deficit
Special Revenue Funds	
Adult Basic Education	\$4,158
Limited English Proficiency	992
Safe and Drug Free Schools	4,686
Improving Teacher Quality	28,046

The deficit fund balances resulted from adjustments for accrued liabilities. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

**B. Compliance**

The following funds had expenditures plus encumbrances in excess of appropriations for the fiscal year ended June 30, 2006.

Fund	Appropriations	Expenditures Plus Encumbrances	Excess
Special Revenue Funds			
Ohio Reads	\$39,143	\$42,888	\$3,745
Miscellaneous State Grants	109,513	110,105	592

(continued)



Marion City School District  
 Marion County  
 Notes to the Basic Financial Statements  
 For the Fiscal Year Ended June 30, 2006

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**Note 4 - Accountability and Compliance (continued)**

Fund	Appropriations	Expenditures Plus Encumbrances	Excess
Limited English Proficiency	\$12,928	\$13,499	\$571
Title V	44,417	58,134	13,717
Safe and Drug Free Schools	40,194	51,184	10,990
Improving Teacher Quality	521,535	585,036	63,501
Miscellaneous Federal Grants	2,013,516	2,150,744	137,228

In the future, the Treasurer will monitor budgetary transactions to ensure appropriations are accurate and recorded appropriately.

At June 30, 2006, the Ohio Reads, Limited English Proficiency, and Improving Teacher Quality special revenue funds and the Food Service enterprise fund had deficit cash balances, in the amount of \$1,059, \$571, \$51,369, and \$63,240, respectively.

**Note 5 - Budgetary Basis of Accounting**

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

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

Marion City School District  
Marion County  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006

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**Note 5 - Budgetary Basis of Accounting (continued)**

The adjustments necessary to reconcile the GAAP and budgetary basis statements for the General Fund are as follows:

Changes in Fund Balance	
GAAP Basis	\$3,217,999
<u>Increase (Decrease) Due To:</u>	
Revenue Accruals:	
Accrued FY 2005, Received in Cash FY 2006	3,686,389
Accrued FY 2006, Not Yet Received in Cash	(2,990,972)
Cash Adjustments:	
Unrecorded Cash Activity FY 2006	(2,406)
Expenditure Accruals:	
Accrued FY 2005, Paid in Cash FY 2006	(5,635,327)
Accrued FY 2006, Not Yet Paid in Cash	3,985,211
Prepaid Items	30,158
Materials and Supplies Inventory	(48,227)
Encumbrances Outstanding at Fiscal Year End (Budget Basis)	(746,479)
Budget Basis	\$1,496,346

**Note 6 - Deposits and Investments**

Monies held by the School District are classified by State statute into three categories.

Active monies are public monies determined to be necessary to meet current demands upon the School District treasury. Active 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 the Board of Education has identified as not required for use within the current five 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.

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.

Marion City School District  
Marion County  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006

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**Note 6 - Deposits and Investments (continued)**

Interim monies held by the School District may be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security 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 the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio);
8. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed 25 percent of the interim monies available for investment at any one time; and
9. Under limited circumstances, corporate debt interests rated in either of the two highest rated 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.



Marion City School District  
 Marion County  
 Notes to the Basic Financial Statements  
 For the Fiscal Year Ended June 30, 2006

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**Note 6 - Deposits and Investments (continued)**

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year end, \$4,569,229 of the School District's bank balance of \$8,379,625 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

The School District has no deposit policy for custodial credit risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the School District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least 105 percent of the deposits being secured.

Investments

As of June 30, 2006, the fair value of funds on deposit with STAR Ohio was \$1,040. The School District's investments in STAR Ohio have an average maturity of 34.8 days. STAR Ohio carries a rating of AAA by Standards and Poor's. The School District has no policy regarding credit risk beyond the requirements of State statute. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service.

**Note 7 - Receivables**

Receivables at June 30, 2006, consisted of accounts (student fees and billings for user charged services), interfund, intergovernmental, amounts due from the component unit, and property taxes. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. All receivables are expected to be collected within one year. A summary of the principal items of intergovernmental receivables follows:

	Amount
Governmental Activities	
General Fund	
Ohio Department of Education	\$55,000
U.S. Marine Corps	262
Marion County	411
North Central Ohio ESC	400
Total General Fund	56,073
Other Governmental Funds	
Ohio Reads	4,361
Miscellaneous State Grants	10,969
Adult Basic Education	550

(continued)

Marion City School District  
Marion County  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006

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**Note 7 - Receivables (continued)**

	Amount
Special Education Idea-B	\$11,549
Limited English Proficiency	109
Title I	246,926
Safe and Drug Free Schools	8,466
Early Childhood Special Education	1,473
Improving Teacher Quality	62,144
Title II-D	7,964
Miscellaneous Federal Grants	281,108
Debt Service	17
Total Other Governmental Funds	<u>635,636</u>
Total Governmental Activities	691,709
Business-Type Activities	
Food Service	<u>180,904</u>
Total Intergovernmental Receivables	<u>\$872,613</u>

**Note 8 - Property Taxes**

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

Property taxes include amounts levied against all real property, public utility property, and tangible personal (used in business) property located in the School District. Real property tax revenues received in calendar year 2006 represent the collection of calendar year 2005 taxes. Real property taxes received in calendar year 2006 were levied after April 1, 2005, on the assessed values as of January 1, 2005, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenues received in calendar year 2006 represent the collection of calendar year 2005 taxes. Public utility real and tangible personal property taxes received in calendar year 2006 became a lien on December 31, 2004, were levied after April 1, 2005, 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.



Marion City School District  
Marion County  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006

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**Note 8 - Property Taxes (continued)**

Tangible personal property tax revenues received in calendar year 2006 (other than public utility property) represent the collection of calendar year 2006 taxes. Tangible personal property taxes received in calendar year 2006 were levied after April 1, 2005, on the value as of December 31, 2005. In prior years, tangible personal property was assessed at 25 percent of true value for capital assets and 23 percent for inventory. The tangible personal property tax is being phased out. The assessment percentage for all property, including inventory, for 2006 is 18.75 percent. This will be reduced to 12.5 percent for 2007, 6.25 percent for 2008, and zero for 2009. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District receives property taxes from Marion County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the county by June 30, 2006, are available to finance fiscal year 2006 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents real property, public utility property, and tangible personal property taxes which were measurable as of June 30, 2006, and for which there was an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reflected as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2006, was \$2,872,039 in the General Fund, \$366,474 in the Classroom Facilities special revenue fund, and \$46,190 in the Bond Retirement debt service fund. The amount available as an advance at June 30, 2005, was \$3,521,778 in the General Fund, \$48,541 in the Classroom Facilities special revenue fund, and \$382,219 in the Bond Retirement debt service fund.

Collectible delinquent property taxes have been recorded as a receivable and revenue on a full accrual basis. On a modified accrual basis, the revenue has been deferred.

The assessed values upon which fiscal year 2006 taxes were collected are:

	2005 Second- Half Collections		2006 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$310,178,140	82.02%	\$310,872,670	81.83%
Public Utility	23,163,960	6.13	25,219,150	6.64
Tangible Personal	44,832,693	11.85	43,790,856	11.53
<b>Total Assessed Value</b>	<b>\$378,174,793</b>	<b>100.00%</b>	<b>\$379,882,676</b>	<b>100.00%</b>
Tax rate per \$1,000 of assessed valuation	\$48.93		\$40.63	



Marion City School District  
Marion County  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006

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**Note 9 - Payment in Lieu of Taxes**

According to State law, the School District has entered into agreements with a number of property owners under which the School District has granted property tax abatements to those property owners. The property owners have agreed to make payments to the School District which reflect all or a portion of the property taxes which the property owners would have paid if their taxes had not been abated. The payment is received annually either as an agreed upon flat amount per year or the amount of estimated taxes that would have been due in that fiscal year. The agreements are for a ten to twelve year period. The property owners' contractually promise to make these payments in lieu of taxes until the agreement expires.

**Note 10 - Capital Assets**

Capital asset activity for the fiscal year ended June 30, 2006, was as follows:

	Restated Balance at 6/30/05	Additions	Reductions	Balance at 6/30/06
Governmental Activities				
Nondepreciable Capital Assets				
Land	\$2,002,562	\$0	(\$37,333)	\$1,965,229
Depreciable Capital Assets				
Land Improvements	957,587	0	0	957,587
Buildings and Building Improvements	90,643,967	0	0	90,643,967
Furniture, Fixtures, and Equipment	536,205	144,729	0	680,934
Vehicles	1,065,634	124,615	0	1,190,249
Total Depreciable Capital Assets	93,203,393	269,344	0	93,472,737
Less Accumulated Depreciation				
Land Improvements	(95,221)	(36,266)	0	(131,487)
Buildings and Building Improvements	(4,256,665)	(1,767,698)	0	(6,024,363)
Furniture, Fixtures, and Equipment	(123,223)	(84,694)	0	(207,917)
Vehicles	(424,398)	(71,576)	0	(495,974)
Total Accumulated Depreciation	(4,899,507)	(1,960,234)	0	(6,859,741)
Depreciable Capital Assets, Net	88,303,886	(1,690,890)	0	86,612,996
Governmental Activities Capital Assets, Net	\$90,306,448	(\$1,690,890)	(\$37,333)	\$88,578,225

Marion City School District  
Marion County  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006

**Note 10 - Capital Assets (continued)**

	Restated Balance at 6/30/05	Additions	Reductions	Balance at 6/30/06
Business-Type Activities				
Nondepreciable Capital Assets				
Land	\$151,853	\$0	\$0	\$151,853
Depreciable Capital Assets				
Buildings and Building Improvements	8,616,936	0	0	8,616,936
Less Accumulated Depreciation				
Buildings and Building Improvements	(362,789)	(169,027)	0	(531,816)
Depreciable Capital Assets, Net	8,254,147	(169,027)	0	8,085,120
Capital Assets, Net	\$8,406,000	(\$169,027)	\$0	\$8,236,973

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$1,264,388
Special	159,831
Vocational	27,111
Adult/Continuing	317
Support Services:	
Pupils	22,078
Instructional Staff	85,521
Administration	112,816
Fiscal	630
Operation and Maintenance of Plant	84,437
Pupil Transportation	62,201
Extracurricular Activities	140,904
Total Depreciation Expense	<u>\$1,960,234</u>

Depreciation expense was charged to other enterprise funds as follows:

Other Enterprise Funds	
Adult Education	<u>\$611</u>

Marion City School District  
Marion County  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006

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**Note 11 - Interfund Assets/Liabilities**

At June 30, 2006, the General Fund had an interfund receivable, in the amount of \$116,120; \$52,999 from other governmental funds and \$63,121 from the food service enterprise fund for short-term loans made to those funds. Amounts are expected be repaid within one year.

**Note 12 - Risk Management**

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2006, the School District contracted for the following insurance coverage:

Coverage provided by Selective Insurance of South Carolina:

Buildings and Contents - replacement cost	\$149,263,186
Auto Liability	2,000,000

Coverage provided by the Ohio School Plan:

General Liability	
Each Occurrence	1,000,000
Aggregate	3,000,000
Excess Liability	2,000,000

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

For fiscal year 2006, the School District participated in the Ohio School Plan (Plan), an insurance purchasing pool. Each participant enters into an individual agreement with the Plan for insurance coverage and pays annual premiums to the Plan based on the types and limits of coverage and deductibles selected by the participant.

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



Marion City School District  
Marion County  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006

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**Note 13 - Defined Benefit Pension Plans**

**A. State Teachers Retirement System**

The School District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. 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. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

New members have a choice of three retirement plans, a Defined Benefit Plan (DBP), a Defined Contribution Plan (DCP), and a Combined Plan (CP). The DBP offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service or on an allowance based on member contributions and earned interest matched by STRS funds multiplied by an actuarially determined annuity factor. The DCP allows members to place all of their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age fifty and termination of employment. The CP offers features of both the DBP and DCP. In the CP, 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 DBP. DCP and CP members will transfer to the DBP during their fifth year of membership unless they permanently select the DCP or CP. 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 balance from the existing DBP into the DCP or CP. This option expired on December 31, 2001.

A DBP or CP member with five or more years of 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 DCP who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salary and the School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. 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 contribution for pension obligations for the DBP for the fiscal years ended June 30, 2006, 2005, and 2004 was \$2,923,923, \$3,187,250 and \$3,047,237, respectively; 86 percent has been contributed for fiscal year 2006 and 100 percent has been contributed for fiscal years 2005 and 2004. Contributions for the DCP and CP for the fiscal year ended June 30, 2006, were \$9,579 made by the School District and \$21,024 made by plan members.

Marion City School District  
Marion County  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006

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**Note 13 - Defined Benefit Pension Plans (continued)**

**B. School Employees Retirement System**

The School District contributes to the School Employees Retirement System of Ohio (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 members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salary and the School District was required to contribute an actuarially determined rate. The rate for fiscal year 2006 was 14 percent of annual covered payroll; 10.58 percent was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The School District's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005, and 2004 was \$418,136, \$586,647, and \$419,401, respectively; 52 percent has been contributed for the fiscal year 2006 and 100 percent has been contributed for fiscal years 2005 and 2004.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the State Teachers Retirement System or the School Employees Retirement System have an option to choose Social Security or the State Teachers Retirement System/School Employees Retirement System. As of June 30, 2006, two of the Board of Education members have elected Social Security. The Board's liability is 6.2 percent of wages paid.

**Note 14 - Postemployment Benefits**

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

STRS retirees who participated in the Defined Benefit Plan or the 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 costs will be absorbed by STRS. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year 2006, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount was \$225,654.

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Fund was \$3.5 billion at June 30, 2006. For the fiscal year ended June 30, 2006, net health care costs paid by STRS were \$282,743,000, and STRS had 119,184 eligible benefit recipients.



Marion City School District  
Marion County  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006

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**Note 14 - Postemployment Benefits (continued)**

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and to disability and survivor benefit recipients. All members must pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status.

For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 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 2006, the minimum pay was established at \$35,800. For the School District, the amount to fund health care benefits, including the surcharge, was \$194,692 for fiscal year 2006.

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. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2006, were \$158,751,207. The target level for the health care fund is 150 percent of the projected claims less premium contributions for the next fiscal year. As of June 30, 2006, the value of the health care fund was \$295.6 million, which is about 221 percent of next year's projected net health care costs. On the basis of actuarial projections, the allocated contributions will not be sufficient, in the long-term, to provide for a health care reserve equal to at least 150 percent of estimated annual net claim costs. SERS has approximately 59,492 participants currently receiving health care benefits.

**Note 15 - Other Employee Benefits**

**A. Compensated Absences**

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees earn ten to twenty days of vacation per year, depending upon length of service. Accumulated unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time.

Employees earn sick leave at a rate of one and one-fourth days per month. Sick leave may be accumulated up to two hundred sixty-five days for twelve month classified employees, two hundred twenty days for less than twelve month classified employees, and two hundred two days for certified employees. Upon retirement, payment is made for one-third of their accrued but unused sick leave credit to the maximum of forty-four and one-third days for classified employees and forty-four days for certified employees. Employees earn extra days if they have more than one hundred twenty days of accumulated sick leave. Depending on length of service, classified employees can earn from four to eight extra days and certified employees can earn from two to ten extra days.

**B. Health Care Benefits**

The School District offers employee medical benefits through United Healthcare. Depending upon the plan chosen, the employees share the cost of the monthly premium with the Board. The premium varies with employee depending on the terms of the union contract. Dental insurance is offered to all employees through Coresource, vision insurance through Vision Service Plan, and life insurance through American United Life.



Marion City School District  
Marion County  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006

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**Note 15 - Other Employee Benefits (continued)**

**C. Separation Benefits**

The School District offers a separation benefit to certified employees eligible to retire under STRS. The employee must submit their resignation for retirement to the Board no later than March 1 of the fiscal year in which they plan to retire. A separation benefit of \$13,000 will be paid between July 1 and August 1 of the year following retirement. At June 30, 2006, there was no liability for separation benefits. This benefit option expires on September 30, 2007.

**Note 16 - Long-Term Obligations**

Changes in the School District's long-term obligations during fiscal year 2006 were as follows:

	Restated Balance at 6/30/05	Additions	Reductions	Balance at 6/30/06	Amounts Due Within One Year
Governmental Activities					
General Obligations					
School Facilities Construction and Improvement Bonds					
FY 2001 4.375 - 6.5%	\$14,255,000	\$0	\$470,000	\$13,785,000	\$505,000
Bus Loan FY 2003 2.75%	19,050	0	19,050	0	0
Athletic Loan FY 2004 4.2%	347,406	0	347,406	0	0
Total General Long-Term Obligations	14,621,456	0	836,456	13,785,000	505,000
Compensated Absences Payable	2,963,197	450,258	9,127	3,404,328	525,594
Capital Leases Payable	274,072	144,729	154,339	264,462	69,069
Total Governmental Activities Long-Term Obligations	<u>\$17,858,725</u>	<u>\$594,987</u>	<u>\$999,922</u>	<u>\$17,453,790</u>	<u>\$1,099,663</u>
Business-Type Activities					
Compensated Absences Payable	<u>\$70,282</u>	<u>\$0</u>	<u>\$12,015</u>	<u>\$58,267</u>	<u>\$8,357</u>

FY 2001 School Facilities Construction and Improvement Bonds - On August 1, 2000, the School District issued \$15,910,000 in voted general obligation bonds for constructing a new high school building and three new elementary school buildings, as well as renovating, remodeling, and improving existing school buildings. The bond issue includes serial and term bonds, in the amount of \$11,740,000 and \$4,170,000, respectively. The bonds were issued for a twenty-two year period, with final maturity in fiscal year 2023. The bonds are being retired through the Bond Retirement debt service fund.

Marion City School District  
Marion County  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006

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**Note 16 - Long-Term Obligations (continued)**

The term bonds maturing on December 1, 2017, 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 date of redemption, on December 1 in the years and the respective principal amounts as follows:

Year	Amount
2016	\$880,000

The remaining principal, in the amount of \$930,000, will be paid at stated maturity on December 1, 2017.

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 date of redemption, on December 1 in the years and the respective principal amounts as follows:

Year	Amount
2021	\$1,150,000

The remaining principal, in the amount of \$1,210,000, will be paid at stated maturity on December 1, 2012.

The bonds maturing after December 1, 2010, except bonds maturing December 1, 2011, to December 1, 2014, inclusive, are subject to redemption at the option of the School District, either in whole or in part, in such order as the School District shall determine, on any interest payment date on or after December 1, 2010, at a redemption price equal to the following percentages of the principal amount redeemed plus accrued interest to the date of redemption:

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

FY 2003 Bus Loan - On November 14, 2002, the School District obtained a loan, in the amount of \$132,413, to acquire three school buses. The loan was fully retired in fiscal year 2006.

FY 2004 Athletic Loan - On September 11, 2003, the School District obtained a loan, in the amount of \$372,221, to construct tennis courts, an indoor running track, and other related athletic facilities. The loan was fully retired in fiscal year 2006.

Compensated absences will be paid from the General Fund, Auxiliary Services, Poverty Based Assistance, Miscellaneous State Grants, Adult Basic Education, Special Education Idea-B, Title I, Improving Teacher Quality, and Miscellaneous Federal Grants special revenue fund, and the Food Service enterprise fund. Capital leases will be paid from the General Fund and Special Education Idea-B special revenue fund.

The School District's overall debt margin was \$14,411,547 with an unvoted debt margin of \$313,295 at June 30, 2006.

Marion City School District  
Marion County  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006

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**Note 16 - Long-Term Obligations (continued)**

Principal and interest requirements to retire the general obligation bonds outstanding at June 30, 2006, were as follows:

Fiscal Year Ending	General Obligation Bonds	
	Principal	Interest
2007	\$505,000	\$754,792
2008	540,000	729,838
2009	565,000	703,177
2010	590,000	675,021
2011	620,000	645,066
2012-2016	3,700,000	2,586,238
2017-2020	4,905,000	1,363,938
2021-2023	2,360,000	134,437
Totals	\$13,785,000	\$7,592,507

**Note 17- Capital Leases - Lessee Disclosure**

The School District has entered into capitalized leases for equipment. Each lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. New capital leases are reflected in the accounts "Administration", "Operation and Maintenance of Plant", and "Inception of Capital Lease" in the funds which will be making the lease payments. Capital lease payments are reflected as debt service expenditures on the statement of revenues, expenditures, and changes in fund balances for the governmental funds. Principal payments in 2006 were \$47,581. During fiscal year 2006, two capital leases were terminated which resulted in a reduction in the capital lease liability of \$106,758.

	Governmental Activities
Equipment	\$449,317
Less Accumulated Depreciation	(113,923)
Total June 30, 2006	\$335,394

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2006.

Fiscal Year	Principal	Interest
2007	\$69,069	\$20,145
2008	64,830	12,192
2009	69,581	7,181
2010	45,519	2,609
2011	15,463	312
	\$264,462	\$42,439



Marion City School District  
 Marion County  
 Notes to the Basic Financial Statements  
 For the Fiscal Year Ended June 30, 2006

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**Note 18 - Set Asides**

The School District is required by State statute to annually set aside, in the General Fund, an amount based on a statutory formula for the purchase of textbooks and other instructional materials, and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the 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.

The following cash basis information identifies the changes in the fund balance reserves for textbooks and capital improvements during fiscal year 2006.

	Textbooks	Capital Improvements
Balance June 30, 2005	\$1,032,989	(\$12,825,191)
Current Year Set Aside Requirement	754,617	754,617
Qualifying Expenditures	(318,236)	0
Balance June 30, 2006	\$1,469,370	(\$12,070,574)

The School District had carryover amounts from the prior fiscal years that reduced the capital improvements set aside amount below zero. This amount may be used to reduce the set aside requirement in future fiscal years.

**Note 19 - Interfund Transfers**

During fiscal year 2006, the General Fund made transfers to other governmental funds, in the amount of \$54,366, to subsidize programs in other funds.

**Note 20 - Donor Restricted Endowments**

The School District's private purpose trust fund includes donor restricted endowments. Endowment, in the amount of \$98,443 represents the principal portion. The amount of net appreciation in donor restricted investments that is available for expenditures by the School District is \$11,239 and is included as held in trust for scholarships. State law permits the School District to appropriate, for purposes consistent with the endowment's intent, net appreciation, realized and unrealized, unless the endowment terms specify otherwise. The endowment indicates that the interest should be used to provide a scholarship each year.

**Note 21 - Jointly Governed Organizations**

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

The School District is a participant in the Tri-Rivers Educational Computer Association (TRECA), which is a computer consortium. TRECA is an association of public school districts within the boundaries of Delaware, Knox, Marion, Morrow, Muskingum, and Wyandot Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of TRECA consists of one representative from each county elected by majority vote of all charter member school districts within each county, one representative from the city school districts, and the superintendent from Tri-Rivers Joint Vocational School. During fiscal year 2006, the School District paid \$184,324 to TRECA for various services. Financial information can be obtained from TRECA, 2222 Marion Mt. Gilead Road, Marion, Ohio 43302.

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

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

**C. North Central Regional Professional Development Center**

The North Central Regional Professional Development Center (Center) is a jointly governed organization among the school districts in Crawford, Huron, Knox, Marion, Morrow, Richland, Seneca, and Wyandot Counties. The organization was formed to create and sustain self-renewing learning communities to transform education in Ohio so that all learners can achieve their full potential. The Center is governed by a twenty-one 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 the Mid-Ohio Educational Service Center, 1495 West Longview Avenue, Suite 202, Mansfield, Ohio 44906.

**D. North Central Ohio Special Education Regional Resource Center**

The North 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 forty-seven member board including the superintendent from the forty-two participating educational entities, one representative from a non-public school, one representative from Knox County Educational Service Center, one representative from Ashland University, and two parents of children with disabilities. The degree of control exercised by any participating educational entity is limited to its representative on the Board. Financial information can be obtained from the Knox County Educational Service Center, 308 Martinsburg Road, Mt. Vernon, Ohio 43050.



Marion City School District  
Marion County  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006

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**Note 22 - Insurance Pools**

**A. 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 president of Harcum-Shuett Insurance Agency, Inc., and a member of the Hylant Group, Inc. The Hylant Group, Inc. is the Plan's administrator and is responsible for processing claims. Harcum-Shuett Insurance Agency serves as the sales and marketing representative which establishes agreements between the Plan and its members. Financial information can be obtained from Harcum-Shuett Insurance Agency, 246 East Sycamore Street, Columbus, Ohio 43206.

**B. Ohio Association of School Business Officials 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.

**Note 23 - Related Organization**

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

**Note 24 - Marion City Digital Academy**

**A. Basis of Presentation**

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



Marion City School District  
Marion County  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006

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**Note 24 - Marion City Digital Academy (continued)**

**B. Deposits and Investments**

At fiscal year end, the carrying amount of Marion City Digital Academy's deposits was \$171,751 and the bank balance was \$174,732. Of the bank balance, \$100,000 was covered by federal depository insurance and \$74,732 was uninsured and uncollateralized. Marion City Digital Academy did not have any investments at fiscal year end.

**C. Correction of an Error**

In the prior fiscal year, Marion City Digital Academy incorrectly recorded capital assets. As a result of this correction, capital assets decreased \$26,831 from \$33,779 to \$6,948 and accumulated depreciation decreased \$10,655 from (\$12,696) to (\$2,041). As a result of this restatement, net assets as previously reported as of June 30, 2005, decreased \$16,176, from \$73,811 to 57,635.

**D. Capital Assets**

Capital asset activity for the fiscal year ended June 30, 2006, was as follows:

	Restated Balance at 6/30/05	Additions	Reductions	Balance at 6/30/06
Depreciable Capital Assets				
Equipment	\$6,948	\$74,427	\$0	\$81,375
Less Accumulated Depreciation	(2,041)	(16,275)	0	(18,316)
Capital Assets, Net	<u>\$4,907</u>	<u>\$58,152</u>	<u>\$0</u>	<u>\$63,059</u>

**Note 25 - Fiscal Watch**

On June 17, 2004, the School District was declared in fiscal watch by the State Department of Education due to projected deficits. The School District's current five-year forecast, which is currently serving as the recovery plan, reflects positive fund balances through fiscal year 2008 and deficit balances in fiscal years 2009, 2010, and 2011. In November 2006, the voters renewed a 5.53 mill five-year operating levy which will generate approximately \$2 million a year. As of the date of this report, the School District continues to be in fiscal watch.

**Note 26 - Contingencies**

**A. Grants**

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure 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, 2006.

Marion City School District  
Marion County  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006

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**Note 26 - Contingencies (continued)**

**B. Litigation**

A lawsuit has been filed by the Columbia Gas Transmission Corporation arguing that the Corporation's public utility property tax assessment rate should be 25 percent of true value rather than the 88 percent used by the Tax Commissioner. The Board of Tax Appeals has agreed with the Corporation and the case has been appealed by the Tax Commissioner to the Ohio Supreme Court. The School District receives property tax from the Corporation. Should the Corporation prevail in the Supreme Court, the Corporation may be entitled to a refund from the School District based on the lower assessment rate beginning from tax year 2001. The amount of the refund is estimated to be approximately \$2,991 per year. A portion of the refund may be recovered from additional State entitlement payments.

**Note 27 - Subsequent Event**

In November 2006, the School District renewed a 5.53 mill five-year operating levy.

# Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

2300 Baton Rouge Avenue  
Lima, OH 45805-1130  
PH 419-331-1040  
FAX 419-331-1120  
www.reacpa.com

*We're Ready For Your Future*

June 29, 2007

Board of Education  
Marion City School District  
Marion, Ohio

## INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, the aggregate discretely presented component unit, and the remaining fund information of Marion City School District, Marion County, Ohio (the School District), as of and for the year ended June 30, 2006, which collectively comprise School District's basic financial statements and have issued our report thereon dated June 29, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting 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 that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted certain matters that we have reported to management of the School District in a separate letter dated June 29, 2007.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the School District in a separate letter dated June 29, 2007.

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

*Rea & Associates, Inc.*



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June 29, 2007

Board of Education  
Marion City School District  
Marion, Ohio

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

### Compliance

We have audited the compliance of Marion City School District, Marion County, Ohio (the School District), with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. The School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the School District's management. Our responsibility is to express an opinion on the School District's compliance based on our audit.

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

In our opinion, the School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

### Internal Control Over Compliance

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control 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 noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

*Rea & Associates, Inc.*

Marion City School District  
Marion County  
Schedule of Federal Awards Receipts and Expenditures  
June 30, 2006

Federal Grantor/ Pass Through Grantor/ Program Title	CFDA Number	Fund	Grant Number	Federal Receipts	Federal Disbursements
U.S. Department of Education (Passed through Ohio Department of Education):					
Able - FY05	84.002	501		\$ (3,618)	\$ 10,577
Able FY06	84.002	501		126,550	118,567
Able FY05 carryover	84.002	501		14,145	14,145
				<u>137,077</u>	<u>143,289</u>
Title I - FY05 - Targeted	84.010	572		75,111	71,044
Title I - FY05 - School wide	84.010	572		288,679	302,349
Title I - FY06	84.010	572		398,281	342,761
Title I - School wide - FY06	84.010	572		1,100,648	1,037,108
				<u>1,862,719</u>	<u>1,753,262</u>
Special Education Cluster					
Idea Par B - FY06	84.027	516		1,187,681	1,076,981
Special Education Access Grant FY06	84.027	516		30,000	2,504
Idea Par B - FY05	84.027	516		146,313	181,577
Idea Par B - Access Grant	84.027	516		(380)	9,714
Early Childhood FY06	84.173	587		51,039	48,853
Early Childhood FY05	84.173	587		(3,288)	(2,405)
				<u>1,411,365</u>	<u>1,317,224</u>
Title IV - FY06	84.186	584		32,201	25,051
Title IV - A Drug Free FY05	84.186	584		14,362	7,993
				<u>46,563</u>	<u>33,044</u>
Title IV - FY06	84.298	573		25,046	3,030
Title IV - Innovative Pro - FY05	84.298	573		18,333	19,372
				<u>43,379</u>	<u>22,402</u>
Title IID - Technology FY05	84.318	599		9,927	14,975
Title IID - Technology FY06	84.318	599		19,025	12,288
				<u>28,952</u>	<u>27,263</u>
Advanced Placement Program	84.330	018		52	52
Title I - CSR - FY06	84.332	572		258,150	100,690
Reading First	84.357	599		1,976,332	1,784,874
Title III - LEP - FY06	84.365	551		12,296	13,421
Title III - LTD. ENG. FY05	84.365	551		49	69
Title III - FY06	84.365	551		554	0
Title III - Immigration FY05	84.365	551		(488)	8
				<u>12,411</u>	<u>13,498</u>
Title IIA - FY06 - Improving Teacher Quality	84.367	590		456,825	508,194
Title VI - R Improving Teacher Quality FY05	84.367	590		42,565	64,709
				<u>499,390</u>	<u>572,903</u>
<i>Total Department of Education</i>				<u>\$ 6,276,390</u>	<u>\$ 5,768,501</u>
U.S. Department of Agriculture (Passed through Ohio Department of Education):					
Child Nutrition Cluster					
National School Breakfast	10.553	006		\$ 165,238	\$ 165,238
National School Lunch	10.555	006		938,319	938,319
Summer Food FY06	10.559	006		37,936	23,322
Summer Food FY05	10.559	006		55,502	52,081
Team Nutrition	10.574	006		2,450	2,450
				<u>1,199,445</u>	<u>1,181,410</u>
Nutrition Mini Grant	10.574	599		<u>0</u>	<u>220</u>
<i>Total Department of Agriculture-Nutrition Cluster</i>				<u>1,199,445</u>	<u>1,181,630</u>
<b>Total Federal Financial Assistance</b>				<u>\$ 7,475,835</u>	<u>\$ 6,950,131</u>

See Accompanying Notes to the Schedule of Federal Awards Receipts and Expenditures



Marion City School District  
Marion County  
Notes To Schedule Of Expenditures Of Federal Awards – Cash Basis  
June 30, 2006

**Note A - Significant Accounting Policies**

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

**Note B - Food Distribution**

Certain Federal programs require that the District contribute non-Federal funds (matching funds) to support the Federally-funded programs. The District has complied with the matching requirements. The expenditure of non-Federal matching funds is not included on the Schedule.

Marion City School District  
Marion County  
Schedule of Findings and Questioned Costs  
OMB Circular A-133 , Section .505  
June 30, 2006

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

(d) (1) (i)	Type of Financial Statement Opinion	Unqualified
(d) (1) (ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	None
(d) (1) (iii)	Was there any reported material non- compliance at the financial statement level (GAGAS)?	None
(d) (1) (iv)	Were there any material internal control weakness conditions reported for major federal programs?	None
(d) (1) (iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	None
(d) (1) (v)	Type of Major Programs' Compliance Opinion	Unqualified
(d) (1) (vi)	Are there any reportable findings under Section .510?	None
(d) (1) (vii)	Major Programs (list):	Title I (84.010) Reading First (84.357)
(d) (1) (viii)	Dollar Threshold: Type A/B Programs	Type A: > \$300,000 Type B: All others
(d) (1) (ix)	Low Risk Auditee?	No

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

None were noted

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

None were noted.

Marion City School District  
 Marion County  
 Summary Schedule of Prior Audit Findings  
 For the Year Ended June 30, 2006

Finding #	Finding Summary	Status
<b>Findings - Financial Statement Audit</b>		
2005-1	Lack of Documentation for Capital Assets	Fully Corrected
2005-2	Appropriations Exceeding Total Estimated Resources	Fully Corrected
2005-3	Expenditures Exceeding Appropriations	Corrected. Reduced to management comment.
2005-4	Negative Cash Balances	Corrected. Reduced to management comment.
<b>Findings - Federal Awards Audit:</b>		
2005-5	Payroll Documentation	Partially corrected

This finding refers to OMB Circular A-87, Attachment B concerning employees who have their salary charged to this grant. Periodic certifications (at least semi-annually) are required to be completed and signed by employee and supervisor to show that the employee is performing under the program. This finding was applicable to all major programs tested. The District did not have these certifications during the FY05 audit period.

**Planned Corrective Action:**

The required certificates and time and attendance reports for payroll documentation for federal programs for employees working in federal grants are currently being obtained for FY06.







**Mary Taylor, CPA**  
Auditor of State

**MARION CITY SCHOOL DISTRICT**

**MARION COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
NOVEMBER 13, 2007**