

**MARION LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**REGULAR AUDIT**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2012**





# Dave Yost • Auditor of State

Board of Education  
Marion Local School District  
7956 State Route 119  
Maria Stein, Ohio 45860

We have reviewed the *Independent Auditors' Report* of the Marion Local School District, Mercer County, prepared by Manning & Associates CPAs, LLC, for the audit period July 1, 2011 through June 30, 2012. 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 Local School District is responsible for compliance with these laws and regulations.

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

Dave Yost  
Auditor of State

February 20, 2013

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**MARION LOCAL SCHOOL DISTRICT**  
**MERCER COUNTY**  
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# Manning & Associates

## Certified Public Accountants, LLC

John M. Manning, CPA • Sandra L. Comer, CPA • John C. Bensman, CPA • John M. Keller, CPA

### INDEPENDENT AUDITORS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Marion Local School District, Mercer County, (the District), as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Marion Local School District, Mercer County, as of June 30, 2012, and the respective changes in cash financial position and the respective budgetary comparison for the General Fund, and OSFC Permanent Improvement Maintenance fund for the year then ended in conformity with the basis of accounting Note 2 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2012, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

We conducted our audit to opine on the District's financial statements taken as a whole. Management's Discussion & Analysis includes tables of net assets, changes in net assets, and governmental activities. These tables provide additional information, but are not part of the basic financial statements. However these tables are management's responsibility, and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. These tables were subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole. Other than the aforementioned procedures applied to the tables, we applied no procedures to any other information in Management's Discussion & Analysis, and we express no opinion or any other assurance on it.

Manning & Associates CPAs, LLC  
Dayton, Ohio

December 19, 2012



**Marion Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2012*

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The discussion and analysis of the Marion Local School District's (the "School District") financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2012. The intent of this discussion and analysis is to look at the School District's performance as a whole; readers should also review the notes to the basic financial statements to enhance their understanding of the School District's financial performance.

***Financial Highlights***

Key financial highlights for fiscal year 2012 are as follows:

- ❑ In total, net assets increased \$193,479, mostly due to decreased disbursements for instruction costs. The change in net assets is comparable to fiscal year 2011 in which the increase was \$137,669 over the prior year.
- ❑ Outstanding debt decreased from \$2,697,557 to \$2,547,171 through principal payments made during the current year.

***Using this Annual Report***

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

The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole School District. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's most significant funds with all other non-major funds presented in total in one column. For fiscal year 2012, the general fund, bond retirement fund and OSFC permanent improvement maintenance fund are the School District's most significant funds.

***Basis of Accounting***

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

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

**Marion Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2012*

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

*Statement of Net Assets and the Statement of Activities*

While this document contains the large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2012?" The statement of net assets and the statement of activities answer this question.

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

In the statement of net assets and the statement of activities, governmental activities include the School District's programs and services, including instruction, support services, extracurricular activities and food service operations.

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

*Fund Financial Statements*

The analysis of the School District's major funds begins on page 7. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds include the general fund, bond retirement fund and the OSFC permanent improvement maintenance fund.

**Governmental Funds** - Most of the School District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using the cash basis of accounting. The governmental fund statements provide a detailed short-term view of the School District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent in the near future to finance educational programs.

***Reporting the School District's Fiduciary Responsibilities***

**Fiduciary funds** - Fiduciary funds are used to account for resources held for the benefit of parties outside the School District. These funds are not reflected in the government-wide financial statements because the resources are not available to support the School District's own programs. The School District's fiduciary funds account for student activities.

**Marion Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2012*

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**The School District as a Whole**

Table 1 provides a summary of the School District's net assets for fiscal year 2012 compared to 2011.

**(Table 1)**  
**Net Assets – Cash Basis**

	Governmental Activities	
	2012	2011
<b>Assets</b>		
Equity in Pooled Cash and Cash Equivalents	\$ 2,786,473	\$ 2,592,994
<i>Total Assets</i>	<u>2,786,473</u>	<u>2,592,994</u>
<b>Net Assets</b>		
Restricted for:		
Capital Outlay	224,585	170,436
Debt Service	430,604	381,467
Set Asides	0	160,735
Other Purposes	610,161	786,757
Unrestricted	<u>1,521,123</u>	<u>1,093,599</u>
<i>Total Net Assets</i>	<u>\$ 2,786,473</u>	<u>\$ 2,592,994</u>

Net assets of the governmental activities increased \$193,479, which represents a 7 percent increase from fiscal year 2011.

A portion of the School District's net assets, \$1,265,350 or 45 percent, represent resources subject to external restrictions on how they may be used. The remaining balance of the government-wide unrestricted net assets of \$1,521,123 may be used to meet the School District's ongoing obligations.

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**Marion Local School District**  
*Management's Discussion and Analysis*  
For the Fiscal Year Ended June 30, 2012

Table 2 shows the changes in net assets for fiscal year 2012 as compared to fiscal year 2011.

**(Table 2)**  
**Changes in Net Assets – Cash Basis**

	Governmental Activities	
	2012	2011
<b>Receipts</b>		
<b>Program Receipts</b>		
Charges for Services and Sales	\$ 768,104	\$ 763,751
Operating Grants, Contributions and Interest	727,402	485,760
Capital Grants, Contributions and Interest	17,978	17,428
<i>Total Program Receipts</i>	<u>1,513,484</u>	<u>1,266,939</u>
<b>General Receipts</b>		
Property Taxes	2,771,357	2,735,302
Grants and Entitlements not Restricted to Specific Programs	4,453,755	4,711,424
Proceeds from Sale of Capital Assets	5,000	0
Investment Earnings	18,230	28,133
Miscellaneous	50,589	74,594
<i>Total General Receipts</i>	<u>7,298,931</u>	<u>7,549,453</u>
<i>Total Receipts</i>	<u>8,812,415</u>	<u>8,816,392</u>
<b>Program Disbursements</b>		
Instruction:		
Regular	4,092,572	4,194,928
Special	817,325	942,480
Vocational	121,901	167,889
Other	60,789	41,259
Support Services:		
Pupils	214,765	220,069
Instructional Staff	376,283	298,533
Board of Education	24,151	34,201
Administration	538,897	520,186
Fiscal	273,367	267,708
Business	2,722	3,133
Operation and Maintenance of Plant	638,288	601,689
Pupil Transportation	358,921	341,639
Central	205	199
Operation of Non-Instructional Services:		
Food Service Operations	313,280	308,088
Extracurricular Activities	371,416	375,004
Capital Outlay	74,896	18,812
Debt Service:		
Principal Retirement	216,750	255,897
Interest and Fiscal Charges	122,408	87,009
<i>Total Program Disbursements</i>	<u>8,618,936</u>	<u>8,678,723</u>
<i>Change in Net Assets</i>	193,479	137,669
<i>Net Assets Beginning of Year</i>	<u>2,592,994</u>	<u>2,455,325</u>
<i>Net Assets End of Year</i>	<u>\$ 2,786,473</u>	<u>\$ 2,592,994</u>

The School District's overall receipts did not vary significantly from the prior year; however, the sources of receipts did vary. Receipt of unrestricted grant monies from stabilization funds in fiscal year 2011 were not repeated in 2012, while restricted grant monies from an ED Jobs grant were received in the current year.

**Marion Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2012*

**Governmental Activities**

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

**(Table 3)**  
**Governmental Activities – Cash Basis**

	Total Costs of Services		Net Costs of Services	
	2012	2011	2012	2011
<b><i>Program Disbursements</i></b>				
Instruction:				
Regular	\$ 4,092,572	\$ 4,194,928	\$ (3,484,552)	\$ (3,806,016)
Special	817,325	942,480	(681,368)	(689,903)
Vocational	121,901	167,889	(38,167)	(111,665)
Other	60,789	41,259	(60,789)	(41,259)
Support Services:				
Pupils	214,765	220,069	(214,765)	(215,069)
Instructional Staff	376,283	298,533	(284,030)	(298,533)
Board of Education	24,151	34,201	(24,151)	(34,201)
Administration	538,897	520,186	(513,993)	(488,926)
Fiscal	273,367	267,708	(264,369)	(256,672)
Business	2,722	3,133	(2,722)	(3,133)
Operation and Maintenance of Plant	638,288	601,689	(602,154)	(565,264)
Pupil Transportation	358,921	341,639	(346,240)	(332,555)
Central	205	199	(205)	(199)
Operation of Non-Instructional Services:				
Food Service Operations	313,280	308,088	3,335	(1,756)
Extracurricular Activities	371,416	375,004	(195,206)	(222,343)
Capital Outlay	74,896	18,812	(56,918)	(1,384)
Debt Service:				
Principal Retirement	216,750	255,897	(216,750)	(255,897)
Interest and Fiscal Charges	122,408	87,009	(122,408)	(87,009)
<b><i>Total</i></b>	<b><u>\$ 8,618,936</u></b>	<b><u>\$ 8,678,723</u></b>	<b><u>\$ (7,105,452)</u></b>	<b><u>\$ (7,411,784)</u></b>

The costs for regular instruction were directly offset by the receipt of an ED Jobs grant.

The dependence upon tax revenues and general revenue entitlements from the state for governmental activities is apparent. Program revenues only account for 18 percent of all governmental expenses. The community is the largest area of support for the School District students.

***The School District's Funds***

The School District's governmental funds are accounted for using the cash basis of accounting.

The School District's governmental funds reported a combined fund balance of \$2,786,473, which is higher than the prior year balance of \$2,592,994.

**Marion Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2012*

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The general fund had total cash receipts and other financing sources of \$7,193,663. The cash disbursements and other financing uses of the general fund totaled \$7,049,761. The general fund's fund balance increased \$143,902 in fiscal year 2012. The increase in fund balance can be attributed to increased receipts from property taxes and intergovernmental sources, coupled with a small decrease in overall disbursements.

The bond retirement fund had total cash receipts of \$396,412 and total cash disbursements of \$347,275, for an increase in fund balance of \$49,137 in 2012. The increase in fund balance is primarily due to decreased costs in servicing the School District's debt.

The OSFC permanent improvement maintenance fund had total cash receipts of \$67,006 and total cash disbursements of \$109,940, for a decrease in fund balance of \$42,934 in fiscal year 2012. The decrease in fund balance is primarily due to increased disbursements for capital outlay.

***General Fund Budgeting Highlights***

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

During the course of fiscal year 2012, the School District amended its general fund budget several times. For the general fund, final budgeted receipts were \$7,094,875, representing a decrease of \$46,602 from the original estimate of \$7,141,477. Actual receipts of \$7,113,636 were \$18,761 higher than the final budget. Of this increase, most was attributable to an increase in intergovernmental receipts.

For fiscal year 2012, the general fund final budgeted disbursements were \$7,789,017, which is over the original budgeted disbursements of \$7,589,355 by \$199,662. Actual disbursements of \$6,971,939 were \$817,078 lower than the final budget. Actual instruction, operation and maintenance of plant, pupil transportation and administration disbursements were significantly under budgeted expectations.

***Debt Administration***

The School District had the following long-term obligations outstanding at June 30, 2012 and 2011.

**(Table 4)**  
**Outstanding Debt, at June 30**

	Governmental Activities	
	2012	2011
2000 School Improvement Capital Appreciation Bonds	\$ 152,710	\$ 152,114
2006 Refunding Bonds - Serial, Term and Capital Appreciation Bonds	2,075,401	2,199,793
HB 264 Energy Conservation Loan	319,060	345,650
<i>Total</i>	\$ 2,547,171	\$ 2,697,557

For further information regarding the School District's debt, refer to Note 9 of the basic financial statements.

**Marion Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2012*

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***Current Issues***

The Marion Local School District, while relying on the State of Ohio to furnish almost two thirds of their financial support, also continues to receive strong support from the residents of the School District. The Board of Education had two emergency levies of 11.6 mills and 2.2 mills which were approved by the residents in March, 2008 with collections set to expire at the end of 2013. The School District also passed a ½ mill maintenance levy which will run for 23 years to help maintain facilities renovated by the project.

Real estate and personal property tax collections have shown moderate increases. The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. The overall income generated by a levy will not increase solely as a result of inflation due to Ohio House Bill 920 (passed in 1976). As an example, a homeowner with a home valued at \$100,000 and taxed at 1.0 mill would pay \$35.00 annually in taxes. If three years later, the home was reappraised and increased to \$200,000 (and this inflationary increase in value is comparable to other property owners) the effective tax rate would become .5 mills and the owner would still pay \$35.00.

Thus, the School District's dependence upon property taxes is hampered by a lack of revenue growth and the School District must regularly return to the voters to maintain a constant level of service. Property taxes made up 31.4% of total receipts for governmental activities for the Marion Local School District in fiscal year 2012, 31% for fiscal year 2011 and 31% in fiscal year 2010.

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

The Marion Local School District has not seen any meaningful growth in State funding for three years. How the legislature plans to fund education programs during a weakened economy remains a concern. This year the School District will see an approximate \$220,000 decrease.

All scenarios require management to plan carefully and prudently to provide the resources to meet student needs over the next several years.

In addition, the School District's systems of budgeting and internal controls are well regarded. In 2008, Marion Local Schools was chosen as one of ten districts by the Ohio Department of Education to participate in a comparison audit of a district in eastern Ohio who is on fiscal watch. Even though finances are stable at the present time, all of the School District's financial abilities will be needed to meet the challenges of the future.

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

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Paul Gagel, Treasurer, Marion Local School District, 7956 State Route 119, Maria Stein, OH 45860; [gagelp@marionlocal.org](mailto:gagelp@marionlocal.org); or Heather Cramer, Assistant Treasurer at [cramerh@marionlocal.org](mailto:cramerh@marionlocal.org)

**Marion Local School District**  
*Statement of Net Assets - Cash Basis*  
*June 30, 2012*

	<u>Governmental Activities</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	<u>\$ 2,786,473</u>
<i>Total Assets</i>	<u><u>\$ 2,786,473</u></u>
<b>Net Assets</b>	
Restricted for:	
Capital Outlay	\$ 224,585
Debt Service	430,604
Other Purposes	610,161
Unrestricted	<u>1,521,123</u>
<i>Total Net Assets</i>	<u><u>\$ 2,786,473</u></u>

See accompanying notes to the basic financial statements.



**Marion Local School District**  
*Statement of Activities - Cash Basis*  
*For the Fiscal Year Ended June 30, 2012*

	Program Cash Receipts				Net (Disbursements) Receipts and Changes in Net Assets
	Cash Disbursements	Charges for Services and Sales	Operating Grants, Contributions and Interest	Capital Grants, Contributions, and Interest	Governmental Activities
<b>Governmental Activities</b>					
Instruction:					
Regular	\$ 4,092,572	\$ 280,793	\$ 327,227	\$ 0	\$ (3,484,552)
Special	817,325	0	135,957	0	(681,368)
Vocational	121,901	0	83,734	0	(38,167)
Other	60,789	0	0	0	(60,789)
Support Services:					
Pupils	214,765	0	0	0	(214,765)
Instructional Staff	376,283	0	92,253	0	(284,030)
Board of Education	24,151	0	0	0	(24,151)
Administration	538,897	23,945	959	0	(513,993)
Fiscal	273,367	8,998	0	0	(264,369)
Business	2,722	0	0	0	(2,722)
Operation and Maintenance of Plant	638,288	0	36,134	0	(602,154)
Pupil Transportation	358,921	12,681	0	0	(346,240)
Central	205	0	0	0	(205)
Operation of Non-Instructional Services:					
Food Service Operations	313,280	267,679	48,936	0	3,335
Extracurricular Activities	371,416	174,008	2,202	0	(195,206)
Capital Outlay	74,896	0	0	17,978	(56,918)
Debt Service:					
Principal Retirement	216,750	0	0	0	(216,750)
Interest and Fiscal Charges	122,408	0	0	0	(122,408)
<b>Totals</b>	<b>\$ 8,618,936</b>	<b>\$ 768,104</b>	<b>\$ 727,402</b>	<b>\$ 17,978</b>	<b>(7,105,452)</b>

**General Receipts**

Property Taxes Levied for:	
General Purposes	2,373,525
Debt Service	304,189
Capital Outlay	62,771
Classroom Facilities and Maintenance	30,872
Grants and Entitlements not Restricted to Specific Programs	4,453,755
Proceeds from Sale of Capital Assets	5,000
Investment Earnings	18,230
Miscellaneous	50,589
<i>Total General Receipts</i>	<u>7,298,931</u>
<i>Change in Net Assets</i>	193,479
<i>Net Assets Beginning of Year</i>	<u>2,592,994</u>
<i>Net Assets End of Year</i>	<u><u>\$ 2,786,473</u></u>

See accompanying notes to the basic financial statements.

**Marion Local School District**  
*Statement of Assets and Fund Balances - Cash Basis*  
*Governmental Funds*  
*June 30, 2012*

	<u>General Fund</u>	<u>Bond Retirement Fund</u>	<u>OSFC Permanent Improvement Maintenance Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets</b>					
Equity in Pooled Cash and Cash Equivalents	\$ 1,521,123	\$ 430,604	\$ 371,772	\$ 462,974	\$ 2,786,473
<i>Total Assets</i>	<u>\$ 1,521,123</u>	<u>\$ 430,604</u>	<u>\$ 371,772</u>	<u>\$ 462,974</u>	<u>\$ 2,786,473</u>
<b>Fund Balances</b>					
Restricted	\$ 0	\$ 430,604	\$ 371,772	\$ 462,974	\$ 1,265,350
Committed	3,143	0	0	0	3,143
Assigned	862,578	0	0	0	862,578
Unassigned	655,402	0	0	0	655,402
<i>Total Fund Balances</i>	<u>\$ 1,521,123</u>	<u>\$ 430,604</u>	<u>\$ 371,772</u>	<u>\$ 462,974</u>	<u>\$ 2,786,473</u>

See accompanying notes to the basic financial statements.

**Marion Local School District**  
*Statement of Receipts, Disbursements and Changes  
in Fund Balances - Cash Basis - Governmental Funds  
For the Fiscal Year Ended June 30, 2012*

	General Fund	Bond Retirement Fund	OSFC Permanent Improvement Maintenance Fund	Other Governmental Funds	Total Governmental Funds
<b>Receipts</b>					
Property and Other Local Taxes	\$ 2,373,523	\$ 304,189	\$ 30,872	\$ 62,771	\$ 2,771,355
Intergovernmental	4,462,517	48,223	36,134	648,958	5,195,832
Investment Income	17,996	0	0	379	18,375
Tuition and Fees	293,474	0	0	0	293,474
Extracurricular Activities	23,945	0	0	174,010	197,955
Gifts and Donations	0	0	0	2,202	2,202
Charges for Services	0	0	0	267,678	267,678
Rent	8,998	0	0	0	8,998
Miscellaneous	7,546	44,000	0	0	51,546
<i>Total Receipts</i>	<u>7,187,999</u>	<u>396,412</u>	<u>67,006</u>	<u>1,155,998</u>	<u>8,807,415</u>
<b>Disbursements</b>					
Current:					
Instruction:					
Regular	3,736,584	0	0	355,988	4,092,572
Special	681,370	0	0	135,955	817,325
Vocational	93,812	0	0	28,089	121,901
Other	60,789	0	0	0	60,789
Support Services:					
Pupils	209,765	0	0	5,000	214,765
Instructional Staff	284,030	0	0	92,253	376,283
Board of Education	24,151	0	0	0	24,151
Administration	538,897	0	0	0	538,897
Fiscal	261,594	8,117	820	2,836	273,367
Business	2,722	0	0	0	2,722
Operation and Maintenance of Plant	583,535	0	54,753	0	638,288
Pupil Transportation	358,921	0	0	0	358,921
Central	167	0	0	38	205
Extracurricular Activities	212,814	0	0	158,602	371,416
Operation of Non-Instructional Services:					
Food Service Operations	0	0	0	313,280	313,280
Capital Outlay	610	0	54,367	19,919	74,896
Debt Service:					
Principal Retirement	0	216,750	0	0	216,750
Interest and Fiscal Charges	0	122,408	0	0	122,408
<i>Total Disbursements</i>	<u>7,049,761</u>	<u>347,275</u>	<u>109,940</u>	<u>1,111,960</u>	<u>8,618,936</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>138,238</u>	<u>49,137</u>	<u>(42,934)</u>	<u>44,038</u>	<u>188,479</u>
<b>Other Financing Sources (Uses)</b>					
Proceeds from Sale of Capital Assets	5,000	0	0	0	5,000
Advances In	664	0	0	0	664
Advances Out	0	0	0	(664)	(664)
<i>Total Other Financing Sources (Uses)</i>	<u>5,664</u>	<u>0</u>	<u>0</u>	<u>(664)</u>	<u>5,000</u>
<i>Net Change in Fund Balances</i>	143,902	49,137	(42,934)	43,374	193,479
<i>Fund Balances Beginning of Year, Restated (Note 3)</i>	<u>1,377,221</u>	<u>381,467</u>	<u>414,706</u>	<u>419,600</u>	<u>2,592,994</u>
<i>Fund Balances End of Year</i>	<u>\$ 1,521,123</u>	<u>\$ 430,604</u>	<u>\$ 371,772</u>	<u>\$ 462,974</u>	<u>\$ 2,786,473</u>

See accompanying notes to the basic financial statements.

**Marion Local School District**  
*Statement of Receipts, Disbursements and Changes*  
*In Cash Basis Fund Balance - Budget and Actual (Budget Basis)*  
*General Fund*  
*For the Fiscal Year Ended June 30, 2012*

	Budgeted Amounts			Variance with Final Budget
	Original	Final	Actual	
<b>Receipts</b>				
Property and Other Local Taxes	\$ 2,243,195	\$ 2,372,195	\$ 2,373,523	\$ 1,328
Intergovernmental	4,596,458	4,429,856	4,462,517	32,661
Investment Income	30,200	20,200	17,924	(2,276)
Tuition and Fees	249,624	250,624	244,135	(6,489)
Rent	10,000	10,000	8,998	(1,002)
Miscellaneous	12,000	12,000	6,539	(5,461)
<i>Total Receipts</i>	<u>7,141,477</u>	<u>7,094,875</u>	<u>7,113,636</u>	<u>18,761</u>
<b>Disbursements</b>				
Current:				
Instruction:				
Regular	3,849,730	3,946,672	3,679,143	267,529
Special	787,671	798,796	681,696	117,100
Vocational	159,975	160,995	93,812	67,183
Other	44,100	66,600	60,789	5,811
Support Services:				
Pupils	223,134	223,259	209,765	13,494
Instructional Staff	319,325	321,385	284,030	37,355
Board of Education	51,350	51,350	24,193	27,157
Administration	567,375	572,425	516,447	55,978
Fiscal	283,825	288,325	261,809	26,516
Business	5,024	5,024	2,722	2,302
Operation and Maintenance of Plant	639,981	676,271	585,021	91,250
Pupil Transportation	396,635	416,660	358,921	57,739
Central	1,450	1,450	167	1,283
Extracurricular Activities	253,780	253,805	212,814	40,991
Capital Outlay	6,000	6,000	610	5,390
<i>Total Disbursements</i>	<u>7,589,355</u>	<u>7,789,017</u>	<u>6,971,939</u>	<u>817,078</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(447,878)</u>	<u>(694,142)</u>	<u>141,697</u>	<u>835,839</u>
<b>Other Financing Sources (Uses)</b>				
Proceeds from Sale of Capital Assets	0	0	5,000	5,000
Refund of Prior Year Expenditures	0	0	50	50
Refund of Prior Year Receipts	(1,000)	(1,000)	0	1,000
Other Financing Uses	(10,000)	(10,000)	0	10,000
Advances In	45,000	45,000	664	(44,336)
Advances Out	(45,000)	(45,000)	0	45,000
Transfers In	146,000	146,000	0	(146,000)
Transfers Out	(200,000)	(200,000)	(25,620)	174,380
<i>Total Other Financing Sources (Uses)</i>	<u>(65,000)</u>	<u>(65,000)</u>	<u>(19,906)</u>	<u>45,094</u>
<i>Net Change in Fund Balance</i>	<u>(512,878)</u>	<u>(759,142)</u>	<u>121,791</u>	<u>880,933</u>
<i>Fund Balance Beginning of Year, Restated (Note 3)</i>	<u>1,167,820</u>	<u>1,167,820</u>	<u>1,167,820</u>	<u>0</u>
Prior Year Encumbrances Appropriated	<u>32,138</u>	<u>32,138</u>	<u>32,138</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u>\$ 687,080</u>	<u>\$ 440,816</u>	<u>\$ 1,321,749</u>	<u>\$ 880,933</u>

See accompanying notes to the basic financial statements.

**Marion Local School District**  
*Statement of Receipts, Disbursements and Changes*  
*In Cash Basis Fund Balance - Budget and Actual (Budget Basis)*  
*OSFC Permanent Improvement Maintenance Fund*  
*For the Fiscal Year Ended June 30, 2012*

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
<b>Receipts</b>				
Property and Other Local Taxes	\$ 29,262	\$ 29,262	\$ 30,872	\$ 1,610
Intergovernmental	35,822	35,822	36,134	312
<i>Total Receipts</i>	<u>65,084</u>	<u>65,084</u>	<u>67,006</u>	<u>1,922</u>
<b>Disbursements</b>				
Current:				
Support Services:				
Fiscal	950	950	820	130
Operation and Maintenance of Plant	68,861	68,861	58,890	9,971
Capital Outlay	119,500	329,500	282,997	46,503
<i>Total Disbursements</i>	<u>189,311</u>	<u>399,311</u>	<u>342,707</u>	<u>56,604</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(124,227)</u>	<u>(334,227)</u>	<u>(275,701)</u>	<u>58,526</u>
<i>Net Change in Fund Balance</i>	(124,227)	(334,227)	(275,701)	58,526
<i>Fund Balance Beginning of Year</i>	349,545	349,545	349,545	0
Prior Year Encumbrances Appropriated	65,161	65,161	65,161	0
<i>Fund Balance End of Year</i>	<u>\$ 290,479</u>	<u>\$ 80,479</u>	<u>\$ 139,005</u>	<u>\$ 58,526</u>

See accompanying notes to the basic financial statements.

**Marion Local School District**  
*Statement of Fiduciary Net Assets - Cash Basis*  
*Fiduciary Funds*  
*June 30, 2012*

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	<u>Agency</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	<u>\$ 100,812</u>
<i>Total Assets</i>	<u><u>\$ 100,812</u></u>
<b>Net Assets</b>	
Held for Student Activities	<u>\$ 100,812</u>
<i>Total Net Assets</i>	<u><u>\$ 100,812</u></u>

See accompanying notes to the basic financial statements.

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## **Marion Local School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012*

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

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

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 Local 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. There are no component units of the Marion Local School District.

The School District participates in three jointly governed organizations and two insurance pools. These organizations are the Northwest Ohio Area Computer Services Cooperative, the Mercer County Local Professional Development Committee, the State Support Team Region 6, the OASBO/Comp Management Workers’ Compensation Group Rating Plan, and the Mercer Auglaize Employee Benefit Trust. These organizations are presented in Notes 12 and 13 to the financial statements.

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

As discussed further in Note 2.A., these financial statements are presented on a cash basis of accounting. This cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. In the government-wide financial statements Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, have been applied, to the extent they are applicable to the cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. The FASB has codified its standards and the standards issued prior to November 30, 1989 are included in the codification. Following are the more significant of the School District’s accounting policies.



## Marion Local School District

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012*

### **NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)**

#### **A. Basis of Accounting**

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

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

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

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

#### **B. Basis of Presentation - Fund Accounting**

##### **Government-Wide Financial Statements**

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

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

**Marion Local School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012*

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES,** (continued)

**Fund Financial Statements**

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

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

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

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

The funds of the financial reporting entity are described below:

**Governmental Funds/Governmental Activities**

Governmental funds are those through which most governmental functions of the School District are financed. The following are the School District's major governmental funds:

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

**Bond Retirement Fund** – The Bond Retirement Fund is used to account for the accumulation of resources for, and the payment of general long-term and short-term debt principal and interest.

**OSFC Permanent Improvement Maintenance Fund** – The OSFC Permanent Improvement Maintenance Fund is used for ongoing maintenance of School District capital projects.

The other governmental funds of the School District account for grants and other resources to which the School District is bound to observe constraints imposed upon the use of the resources.

**Marion Local School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012*

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES,** (continued)

**Fiduciary Fund Types**

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

**C. Budgetary Process**

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

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

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

**Tax Budget**

Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The express purpose of this budget document is to reflect the need for existing (or increased) tax rates. By no later than January 20, the Board-adopted budget is filed with the County Budget Commission for rate determination.

**Estimated Resources**

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

**Marion Local School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012*

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES,** (continued)

**Appropriations**

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

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

**Encumbrances**

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

**Lapsing of Appropriations**

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

**D. Cash and Cash Equivalents**

To improve cash management, all cash received by the School District is pooled. Monies for all funds are maintained in pooled accounts or temporarily used to purchase short term investments. Individual fund integrity is maintained through School District records. Interest in the pool is presented as “equity in pooled cash and cash equivalents.”

**Marion Local School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012*

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES,** (continued)

For purposes of financial reporting, investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are considered to be cash equivalents. Investments with an initial maturity of more than three months and which are not purchased with pooled monies are reported as investments. Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or negative receipts (contra revenue), respectively.

The School District invested in shares of Federal National Mortgage Association and STAROhio. Investments are reported at cost, except for STAROhio. Investments in STAROhio are valued at STAROhio's share price, which is the price the investment could be sold for on June 30, 2012. Investment earnings are allocated as authorized by State statute based upon School District policy.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest receipts credited to the General Fund during fiscal year 2012 were \$17,996, which includes \$8,172 assigned from other School District funds.

**E. Restricted Assets**

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributions, grantors, law of other governments, or imposed by law through constitutional provisions or enabling legislation.

**F. Capital Assets**

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

**G. Accumulated Leave**

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

**H. Long-Term Debt**

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

**Marion Local School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012*

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES,** (continued)

**I. Intergovernmental Receipts**

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

**J. Inventory and Prepaid Items**

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

**K. Interfund Activity**

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

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

The School District reports advances-in and advances-out for interfund loans. These items are not reflected as assets and liabilities on the accompanying financial statements. At fiscal year ending June 30, 2012 there were no unpaid interfund cash advances.

**L. Employer Contributions to Cost-Sharing Pension Plans**

The School District recognizes disbursements for employer contributions to cost-sharing plans when they are paid. As described in Notes 7 and 8, the employer contributions include portions for pension benefits and for postretirement health care benefits.

**M. Equity Classifications**

**Government-Wide Statements**

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

1. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or (2) law through constitutional provisions or enabling legislation. Net assets restricted for other purposes include resources restricted for capital improvements, Federal and State grants restricted to disbursements for specific purposes and food services. As of June 30, 2012, the School District did not have any net assets restricted by enabling legislation.

**Marion Local School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012*

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES,** (continued)

2. Unrestricted net assets – All other net assets that do not meet the definition of “restricted.”

The School District’s policy is to first apply restricted resources when a cash disbursement is incurred for purposes for which both restricted and unrestricted net assets are available.

**Fund Financial Statements**

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

- a. **Nonspendable** - The nonspendable classification includes amounts that cannot be spent because they are not in spendable form or legally or contractually required to be maintained intact. The “not in spendable form” includes items that are not expected to be converted to cash.
- b. **Restricted** - Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or is imposed by law through constitutional provisions.
- c. **Committed** - The committed classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the Board of Education. The committed amounts cannot be used for any other purpose unless the Board of Education removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.
- d. **Assigned** - Amounts in the assigned classification are intended to be used by the School District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds, other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the Board of Education. The Board of Education has by resolution authorized the treasurer to assign fund balance. The Board of Education may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year’s appropriated budget.
- e. **Unassigned** - Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

**Marion Local School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012*

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES,** (continued)

The School District first applies restricted resources when an expenditure is incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications can be used.

**N. Receipts and Disbursements**

Program Receipts

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

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

Disbursements

Governmental activities include the School District's programs and services, including instruction, support services, operation and maintenance of plant (buildings), pupil transportation, extracurricular activities, and food service operations.

**NOTE 3 – RESTATEMENT OF FUND BALANCE**

In fiscal year 2011, the School District implemented Governmental Accounting Standards Board (GASB) Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions". GASB Statement No. 54 provides fund balance classifications that can be more consistently applied and clarifies the existing governmental fund type definitions. The requirements of this statement classify fund balance as nonspendable, restricted, committed, assigned, and/or unassigned. In the fiscal year ended June 30, 2012 various funds were reclassified to the General Fund from Other Governmental Funds. The restatement of those fund balances is summarized below:

	<b>General</b>	<b>Other Governmental Funds</b>
Fund Balance at June 30, 2011	\$ 1,254,333	\$ 542,488
Change in Fund Structure	122,888	(122,888)
Restated Fund Balance at June 30, 2011	<u>\$ 1,377,221</u>	<u>\$ 419,600</u>

The restatement had no effect on net assets.



**Marion Local School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012*

**NOTE 3 – RESTATEMENT OF FUND BALANCE,** (continued)

The fund balance on the *Statement of Receipts, Disbursements and Changes in Cash Basis Fund Balance – Budget and Actual (Budget Basis) – General Fund* is being restated to exclude amounts for the Uniform School Supplies fund. The restatement is summarized below:

Fund Balance at June 30, 2011	\$ 1,211,811
Change in Fund Structure	(43,991)
Restated Fund Balance at June 30, 2011	<u>\$ 1,167,820</u>

**NOTE 4 –DEPOSITS AND INVESTMENTS**

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

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

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

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

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

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

1. United States treasury notes, bills, bonds, or other obligations or security issued by the United States treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

## Marion Local School District

### *Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2012*

#### **NOTE 4 –DEPOSITS AND INVESTMENTS**, (continued)

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAROhio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed twenty-five percent of the interim moneys available for investment at any one time;
8. Under certain circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

As of June 30, 2012, the School District had \$1,100 in undeposited cash on hand which is included in the pooled cash and cash equivalents.

#### **Deposits**

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

At June 30, 2012, the carrying amount of the School District's deposits was \$2,294,023 and the bank balance was \$2,502,259. Of the bank balance, \$500,000 was covered by federal depository insurance and \$2,002,259 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging institution's trust department not in the School District's name.

**Marion Local School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012*

**NOTE 4 –DEPOSITS AND INVESTMENTS**, (continued)

**Investments**

Investments, with the exception of STAROhio, are reported at cost basis. STAROhio is reported at the current fair market value. As of June 30, 2012, the School District had the following investments:

	Cost as of 06/30/2012	% of Total Investments	Maturities	
			< 1 Year	1 - 5 Years
Federal National Mortgage Association	\$ 100,000	16.89%	\$ 0	\$ 100,000
STAROhio	492,162	83.11%	492,162	0
	<u>\$ 592,162</u>	<u>100.00%</u>	<u>\$ 492,162</u>	<u>\$ 100,000</u>

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

**Custodial Credit Risk** -For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The School District has no investment policy dealing with investment custodial risk beyond the requirement of ORC 135.14(M)(2) which states, “Payments for investments shall be made only upon the delivery of securities representing such investments to the treasurer, investing authority, or qualified trustee. If the securities transferred are not represented by a certificate, payment shall be made only upon receipt of confirmation of transfer from custodian by the treasurer, governing board, or qualified trustee.” However, all of the School District’s investments are either insured and registered in the name of the School District, or at least registered in the name of the school district.

**Credit Risk** -Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The School District’s policy allows the Treasurer to invest in those investments authorized by the Ohio Revised Code, and places additional limitations with amounts authorized for investment in certain types.

At June 30, 2012 the School District’s investments in US Government/Agency Bonds consist of securities in Federal National Mortgage Association which are rated AA+ by Standard and Poor’s.

STAROhio is an investment pool operated by the Ohio State Treasurer. It is unclassified since it is not evidenced by securities that exist in physical or book entry form. Ohio law requires STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service. The weighted average of maturity of the portfolio held by STAROhio as of June 30, 2012, is 53 days and carries a rating of AAAM by Standard and Poor’s.

## Marion Local School District

### *Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2012*

#### **NOTE 4 – DEPOSITS AND INVESTMENTS**, (continued)

**Concentration Risk** - The School District places no limit on the amount the district may invest in any one issuer, however State statute limits investments in commercial paper and bankers' acceptances to 25 percent of the interim monies available for investment at any one time. More than 5 percent of the School District's investments are in Federal National Mortgage Association and STAROhio. The percentage of the School District's total investment that each investment represents, are listed in the table on the previous page.

#### **NOTE 5 - PROPERTY TAXES**

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

Property taxes include amounts levied against all real and public utility property located in the School District. Real property tax revenue received in calendar year 2012 represents collections of calendar year 2011 taxes. Real property taxes received in calendar year 2012 were levied after April 1, 2011, on the assessed value listed as of January 1, 2011, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. 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 revenue received in calendar 2012 represents collections of calendar year 2011 taxes. Public utility real and tangible personal property taxes received in calendar year 2012 became a lien December 31, 2010, were levied after April 1, 2011 and are collected in 2012 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phased out the tax on tangible personal property of general businesses, telephone and telecommunications companies, and railroads. The tax on general business and railroad property was eliminated in calendar year 2009, and the tax on telephone and telecommunications property was eliminated in calendar year 2010. The tax was phased out by reducing the assessment rate on the property each year. The bill replaced the revenue lost by the School District due to the phasing out of the tax. In calendar years 2006-2010, the School District was fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements are being phased out. On June 30, 2011, House Bill No. 153 was signed into law, which further reduced the amounts of these reimbursements.

The School District receives property taxes from Auglaize, Darke and Mercer Counties. 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, 2012, are available to finance fiscal year 2012 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

**Marion Local School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012*

**NOTE 5 - PROPERTY TAXES**, (continued)

The assessed values upon which the fiscal year 2012 taxes were collected are:

	<b>2011 Second-Half Collections</b>		<b>2012 First-Half Collections</b>	
	<b>Amount</b>	<b>Percent</b>	<b>Amount</b>	<b>Percent</b>
Agricultural/Residential and Other Real Estate	\$ 78,525,350	97.75%	\$ 84,346,230	97.92%
Public Utility	1,809,920	2.25%	1,787,370	2.08%
Total Assessed Value	<u>\$ 80,335,270</u>	<u>100.00%</u>	<u>\$ 86,133,600</u>	<u>100.00%</u>
Tax Rate per \$1,000 of Assessed Valuation	\$39.05		\$37.90	

**NOTE 6 - RISK MANAGEMENT**

**A. Property and Liability**

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2012, the School District contracted with Netherlands Insurance Company for the following insurance coverage:

Buildings and Contents – replacement cost	\$ 26,234,365
General Liability	
Per Occurrence	1,000,000
Aggregate	2,000,000
Automobile Liability	1,000,000
Uninsured Motorists	1,000,000

Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in coverage from the prior years.

**B. Workers' Compensation**

The School District participates in the Ohio Association of School Business Officials Workers' Compensation Group Rating Plan (the "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, Comp Management, reviews each participant's claims experience and determines the rating tier for that participant. A common premium rate is applied to all participants in a given rating tier. Each participant pays its workers' compensation premium to the State based on the rate for their rating tier rather than its individual rate. Comp Management provides administrative, cost control and actuarial services to the Plan.

## Marion Local School District

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012*

### **NOTE 6 - RISK MANAGEMENT**, (continued)

#### **Health Care Benefits**

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

### **NOTE 7 - PENSION PLANS**

#### ***A. School Employees Retirement System***

Plan Description - The School District contributes to the School Employees Retirement System of Ohio ("SERS"), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report can be obtained by contacting SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on SERS' website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2012, 12.65 percent and .05 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The School District's required contributions for pension obligations and death benefits to SERS for the fiscal years ended June 30, 2012, 2011 and 2010 were \$102,868, \$94,092 and \$101,814, respectively; 41 percent has been contributed for fiscal year 2012 and 100 percent for the fiscal years 2011 and 2010.

#### ***B. State Teachers Retirement System***

Plan Description - The School District participates in the State Teachers Retirement System of Ohio ("STRS Ohio"), a cost-sharing, multiple-employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a publicly-available, stand-alone financial report that may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3371, by calling (888) 227-7877, or by visiting the STRS Ohio website at [www.strsoh.org](http://www.strsoh.org).

## Marion Local School District

### *Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2012*

#### **NOTE 7 - PENSION PLANS,** (continued)

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB Plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years 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 DC plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy - For fiscal year 2012, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employer contributions. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2012, 2011 and 2010 were \$466,923, \$481,906 and \$486,252, respectively; 83 percent has been contributed for fiscal year 2012 and 100 percent for the fiscal years 2011 and 2010. Contributions to the DC and Combined Plans for fiscal year 2012 were \$9,277 made by the School District and \$6,626 made by the plan members.

#### ***C. Social Security System***

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2012, all members of the Board of Education have elected social security. The Board's liability is 6.2 percent of wages paid.

## Marion Local School District

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012*

### **NOTE 8 - POST EMPLOYMENT BENEFITS**

#### ***A. School Employees Retirement System***

Plan Description – The School District participates in two cost-sharing, multiple employer defined benefit OPEB plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage and traditional indemnity plans. A prescription drug plan is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code Section 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B monthly premium for calendar year 2012 was \$99.90 for most participants, but could be as high as \$319.70 per month depending on their income. SERS' reimbursement to retirees was \$45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746. It is also posted on SERS' website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2012, .55 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2012, the actuarially determined amount was \$35,800.

Active members do not contribute to the postemployment benefit plans. The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

The School District's contributions for health care (including surcharge) for the fiscal years ended June 30, 2012, 2011, and 2010 were \$19,963, \$26,686, and \$14,849, respectively; 41 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.



**Marion Local School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012*

**NOTE 8 - POST EMPLOYMENT BENEFITS**, (continued)

The Retirement Board, acting with advice of the actuary, allocates a portion of the current employer contribution to the Medicare B Fund. For fiscal year 2012, the actuarially required allocation was 0.75 percent of covered payroll. The School District’s contributions for Medicare Part B for the fiscal years ended June 30, 2012, 2011, and 2010 were \$6,075, \$6,055, and \$6,055, respectively; 41 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

***B. State Teachers Retirement System***

Plan Description - The School District contributes to the cost sharing, multiple-employer defined benefit Health Plan (the “Plan”) administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians’ fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the financial report of STRS. Interested parties can view the most recent Comprehensive Annual Financial Report by visiting [www.strsoh.org](http://www.strsoh.org) or by requesting a copy by calling toll-free (888) 227-7877.

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2012, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School District’s contributions for health care for the fiscal years ended June 30, 2012, 2011, and 2010 were \$35,917, \$37,070, and \$37,404, respectively; 83 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

**NOTE 9 - LONG-TERM OBLIGATIONS**

The changes in the School District’s long-term obligations during fiscal year 2012 were as follows:

<u>General Long-Term Obligations</u>	<u>Interest Rate</u>	<u>Outstanding 06/30/11</u>	<u>Additions</u>	<u>Reductions</u>	<u>Outstanding 06/30/12</u>	<u>Due Within 1 Year</u>
2006 Refunding Bonds:						
Serial and Term Bonds	4.00-4.13%	\$ 1,660,000	\$ 0	\$ 175,000	\$ 1,485,000	\$ 185,000
Capital Appreciation Bonds	4.30-4.35%	349,995	0	0	349,995	0
Capital Bonds Accretion		189,798	50,608	0	240,406	0
2000 School Improvement:						
Capital Appreciation Bonds	12.20%	40,589	0	15,160	25,429	13,466
Capital Bonds Accretion		111,525	15,756	0	127,281	46,534
HB 264 Energy Conservation Loan	4.21%	345,650	0	26,590	319,060	26,590
<b>Total</b>		<u>\$ 2,697,557</u>	<u>\$ 66,364</u>	<u>\$ 216,750</u>	<u>\$ 2,547,171</u>	<u>\$ 271,590</u>

## Marion Local School District

### *Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2012*

#### **NOTE 9 - LONG-TERM OBLIGATIONS**, (continued)

**2006 Refunding Bonds** - On August 29, 2006, the School District refinanced \$2,664,996 in prior bond issues; \$730,000 of the 2000 issue was refinanced and \$1,934,996 of the 1997 issue was refinanced. The bond issue includes serial, term, and capital appreciation bonds in the amount of \$1,695,000, \$620,000 and \$349,995, respectively. The bonds are being retired from the Bond Retirement debt service fund. The economic gain from refunding the bonds totaled \$127,430.

The term bonds maturing on December 1, 2010 were 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, 2010. Unless previously redeemed, the remaining principal amount of the bonds (\$165,000) was paid and matured on December 1, 2010.

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, 2020 and each December 1 thereafter. Unless previously redeemed, the remaining principal amount of the bonds (\$100,000) is to be paid at stated maturity on December 1, 2022.

The term bonds maturing on or after December 1, 2017, are subject to optional redemption, in whole or in part on any date or any order of maturity at the option of the School District on or after December 1, 2016, at the redemption price of 100 percent.

The capital appreciation bonds will mature in fiscal years 2015 through 2017 and are not subject to redemption prior to maturity. The maturity amount of the bonds is \$800,000. For fiscal year 2012, \$50,608 was accreted for a total capital appreciation bond value of \$590,401.

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

The serial and term bonds were repaid during fiscal year 2011.

The capital appreciation bonds will mature in fiscal years 2011 through 2013 and are not subject to redemption prior to maturity. The maturity amount of the bonds is \$180,000. For fiscal year 2012, \$15,756 was accreted for total bond value of \$152,710.

**HB 264 Energy Conservation Loan** – On June 15, 2009, the School District obtained a \$398,830 unvoted general obligation loan from the St. Henry Bank for the purpose of providing energy conservation measures for the School District under H.B. 264. The loan was issued for a fifteen year period with final maturity of June 15, 2024. Semi-annual payments of \$13,295 plus interest of 4.21% will be made throughout the term of the loan. The loan is being repaid from the Bond Retirement debt service fund.

**Marion Local School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012*

**NOTE 9 - LONG-TERM OBLIGATIONS,** (continued)

Principal and interest requirements to retire general obligation debt outstanding at June 30, 2012, are as follows:

Fiscal Year Ending June 30,	2000 General Obligation Bonds	2006 Refunding Bonds			Interest / Accretion	Total
	Capital Appreciation Bonds	Serial and Term Bonds	Capital Appreciation Bonds	HB 264		
2013	\$ 13,466	\$ 185,000	\$ 0	\$ 26,590	\$ 115,744	\$ 340,800
2014	11,963	190,000	0	26,590	108,627	337,180
2015	0	0	128,587	26,590	197,083	352,260
2016	0	0	115,243	26,590	204,335	346,168
2017	0	0	106,165	26,590	212,266	345,021
2018-2022	0	1,010,000	0	132,950	127,753	1,270,703
2023-2024	0	100,000	0	53,160	4,862	158,022
	<u>\$ 25,429</u>	<u>\$ 1,485,000</u>	<u>\$ 349,995</u>	<u>\$ 319,060</u>	<u>\$ 970,670</u>	<u>\$ 3,150,154</u>

**NOTE 10 – FUND BALANCE**

Fund balance is classified as nonspendable, restricted, committed, assigned, and/or unassigned based primarily on the extent to which the School District is bound to observe constraints imposed upon the use of the resources in governmental funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

	OSFC				
	General Fund	Bond Retirement Fund	Permanent Improvement Maintenance Fund	Other Governmental Funds	Total Governmental Funds
<b>Restricted for:</b>					
Permanent Improvement	\$ 0	\$ 0	\$ 371,772	\$ 224,585	\$ 596,357
Debt Service	0	430,604	0	0	430,604
Support Services	0	0	0	1,454	1,454
Student Activities	0	0	0	129,570	129,570
Instruction	0	0	0	3,754	3,754
Food Service	0	0	0	103,611	103,611
Total Restricted	<u>0</u>	<u>430,604</u>	<u>371,772</u>	<u>462,974</u>	<u>1,265,350</u>
<b>Committed for:</b>					
Underground Storage Tank	3,143	0	0	0	3,143
Total Committed	<u>3,143</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>3,143</u>
<b>Assigned for:</b>					
Instruction	23,262	0	0	0	23,262
Support Services	2,055	0	0	0	2,055
Subsequent Year Appropriations	837,261	0	0	0	837,261
Total Assigned	<u>862,578</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>862,578</u>
<b>Unassigned</b>	<u>655,402</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>655,402</u>
<b>Total Fund Balance</b>	<u>\$ 1,521,123</u>	<u>\$ 430,604</u>	<u>\$ 371,772</u>	<u>\$ 462,974</u>	<u>\$ 2,786,473</u>

**Marion Local School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012*

**NOTE 11 - STATUTORY RESERVES**

The School District is required by State statute to annually set aside, in the General Fund, an amount based on a statutory formula for the 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 capital improvements during fiscal year 2012:

	Capital Improvement Reserve
Set Aside Restricted Balance June 30, 2011	\$ 160,735
Current Year Set Aside Requirement	153,565
Current Year Qualifying Disbursements	(6,112)
Current Year Offsets	(147,754)
Prior Year Offsets Used in Current Year	(160,434)
Total	<u>\$ 0</u>
Balance Carried Forward to Fiscal Year 2013	<u>\$ 0</u>
Set Aside Restricted Balance June 30, 2012	<u>\$ 0</u>

The School District had qualifying disbursements and offsets during the fiscal year that reduced the capital maintenance set aside amount below zero. For capital acquisitions, the extra amount, which was a result of capital expenditures from bond or note proceeds, is used to reduce the set aside requirements of future years. The amount of offset available resulting from bond or note proceeds for capital disbursements was not recognized in the prior year. However, the offset is an allowable expenditure and has been included in the current year.

**NOTE 12- JOINTLY GOVERNED ORGANIZATIONS**

Northwest Ohio Area Computer Services Cooperative - The School District is a participant in the Northwest Ohio Area Computer Services Cooperative (“NOACSC”), which is a computer consortium. NOACSC is an association of public school districts within the boundaries of Allen, Hancock, Mercer, Paulding, Putnam, and Van Wert Counties, and the Cities of St. Mary’s and Wapakoneta. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of NOACSC consists of two representatives from each county elected by majority vote of all charter member school districts within each county. During fiscal year 2012, the School District paid \$12,500 to NOACSC for various services. Financial information can be obtained from Raymond Burden, who serves as Director, 645 South Main Street, Lima, Ohio 45804.

## Marion Local School District

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012*

### **NOTE 12- JOINTLY GOVERNED ORGANIZATIONS**, (continued)

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

State Support Team Region 6 - The State Support Team Region 6 (“SST6”) is a special education service center, which selects its own board, adopts its own budget and receives direct Federal and State grants for its operation. The jointly-governed organization was formed for the purpose of initiating, expanding and improving special education programs and services for children with disabilities and their parents. The SST6 is governed by a board of 52 members made up of the 50 superintendents of the participating School Districts, one non-public school, and Wright State University whose terms rotate every year. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained by contacting Marlene Graf, Director, at 1045 Dearbaugh, Suite #1, Wapakoneta, Ohio 45895.

### **NOTE 13- GROUP PURCHASING POOL**

OASBO / Comp Management 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.

Mercer Auglaize Employee Benefit Trust - The Mercer Auglaize Employee Benefit Trust (“Trust”) is a public entity shared risk pool consisting of eleven local school districts and two educational service centers. The Trust is organized as a Voluntary Employee Benefit Association under Section 501(c)(9) of the Internal Revenue Code and provides medical, prescription drug, and dental benefits to the employees of the participants. Each participant’s superintendent is appointed to an Administrative Committee, which advises the Trustee, Huntington Bank, concerning aspects of the administration of the Trust. Each participant decides which plans offered by the Administrative Committee will be extended to its employees. Participation in the Trust is by written application subject to acceptance by the Administrative Committee and payment of the monthly premiums. Financial information can be obtained from Glenn Szana at Group Health Care Consultants, 1616 East Wooster #20, Bowling Green, Ohio 43402.

**Marion Local School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012*

**NOTE 14 - INTERFUND ACTIVITY**

During fiscal year 2012, the General Fund received repayment of \$664 which was advanced to the Race to the Top Grant Fund in the previous year.

**NOTE 15 - CONTINGENCIES**

***A. Review of Statewide Attendance Data***

The Auditor of State is currently performing a statewide review of supporting documentation for student attendance data reported to the Ohio Department of Education. The results of this review are still pending and will be reported separately to the Ohio Department of Education at a later date.

***B. 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. This also encompasses the Auditor of State’s ongoing review of student attendance data. However, the effect of any such disallowed claims on the overall financial position of the School District at June 30, 2012, if applicable, cannot be determined at this time.

***C. Litigation***

The School District is not party to any claims or lawsuits that would, in the School District’s opinion, have a material effect of the basic financial statements.

**NOTE 16 - CONTRACTUAL COMMITMENTS**

At June 30, 2012, the School District had the following outstanding contractual commitment:

<u>Contractor / Vendor</u>	<u>Description</u>	<u>Contractual Commitment</u>	<u>Balance</u>
Tumbusch Construction	Parking Lot Renovations, Sealing and Striping	\$ 228,630	\$ 228,630

**Marion Local School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012*

**NOTE 17 – BUDGETARY BASIS OF ACCOUNTING**

The Statement of Receipts, Disbursements and Changes in Fund Balances – Cash Basis – Governmental Funds, presented for each of the General Fund and the OSFC Permanent Improvement Maintenance 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 cash basis are that:

- (a) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of a disbursement; and,
- (b) Some funds are included in the General Fund (cash basis), but have separate legally adopted budgets (budget basis).

The adjustments necessary to convert the results of operations for the year on the cash basis to the budget basis for each fund is as follows:

	<b>Net Change in Fund Balance</b>	
	General Fund	OSFC Permanent Improvement Maintenance
Cash Basis	\$ 143,902	\$ (42,934)
Funds Budgeted Elsewhere**	(2,612)	0
Adjustment for Encumbrances	<u>(19,499)</u>	<u>(232,767)</u>
Budget Basis	<u><u>\$ 121,791</u></u>	<u><u>\$ (275,701)</u></u>

\*\* As part of Governmental Accounting Standards Board Statement No. 54 “Fund Balance Reporting”, certain funds that are legally budgeted in separate special revenue funds are considered part of the General Fund on a cash basis. This includes public school support funds, uniform school supplies funds, termination benefits funds, and the underground storage tank fund.

**NOTE 18 – COMPLIANCE**

Ohio Adm. Code Section 117-2-03(B) requires the School District to file annual financial reports, which are prepared using generally accepted accounting principles (GAAP). For fiscal year 2012, the School District prepared financial statements that, although formatted similar to financial statements prescribed by Governmental Accounting Standards Board Statement No. 34, report on the basis of cash receipts and cash disbursements, rather than GAAP. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. Pursuant to Ohio Rev. Code Section 117.38, the School District may be fined and subject to various other administrative remedies for its failure to file the required financial report.

**Marion Local School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012*

**NOTE 19 – COMPENSATED ABSENCES**

Employees ear vacation at rates specified under State of Ohio law and based on credited service. Clerical, Technical, and Maintenance and Operation employees are entitled to vacation ranging from 10 to 20 days upon hiring. Employees are permitted to carry over 3 days vacation leave earned for 90 days into the new-year. After the 90-day period, all vacation days are cleared and the allocation is reset.

All employees are entitled to a sick leave credit equal to one and one-quarter days for each month of service (earned on a pro rated basis for less than full-time employees). This sick leave will either be absorbed by time off due to illness or injury, or within certain limitations, be paid to the employee upon retirement. The amount paid to an employee upon retirement is limited to twenty-five percent of the remaining accumulated sick leave to a maximum of 55 days. The employee may accumulate up to 225 days in the sick leave bank; however the additional 5 days are not used in the calculation of sick leave pay-out.

**NOTE 20 – STUDENT ATTENDANCE DATA**

The Auditor of State is currently performing statewide review of supporting documentation for student attendance data reported to the Ohio Department of Education at a later date.

The 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 are 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. This also encompasses the Auditor of State’s ongoing g review of student data. However, the effect of any such disallowed claims on the overall financial position of the District at June 30, 2012, if applicable cannot be determined at this time.



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# Manning & Associates Certified Public Accountants, LLC

John M. Manning, CPA • Sandra L. Comer, CPA • John C. Bensman, CPA • John M. Keller, CPA

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Marion Local School District, Mercer County, (the District), as of and for the fiscal year ended June 30, 2012, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 19, 2012, wherein we noted the District uses a comprehensive accounting basis other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of opining on the effectiveness of the District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the District's internal control over financial reporting.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. *A material weakness* is a deficiency or a combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses as defined above.

### **Compliance and Other Matters**

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests an instance of noncompliance or other matters that we must report under *Government Auditing Standards*, which is described in the accompanying schedule of findings as item 2012-001.

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

We intend this report solely for the information and use of the audit committee, management, Board of Education, federal awarding agencies, pass-through entities. We intend it for no one other than these specified parties.

Manning & Associates CPAs, LLC  
Dayton, Ohio

December 19, 2012

**Marion Local School District  
Mercer County**

*Schedule of Findings  
June 30, 2012*

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2012-001**

**Noncompliance Citation  
GAAP Reporting**

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

**Ohio Adm. Code Sec. 117-2-03 (B)** requires the School District to prepare its annual financial report in accordance with generally accepted accounting principles (GAAP).

For 2012, the School District prepared its financial statements, although formatted similar to financial statements prescribed by Governmental Accounting Standards Board Statement No. 34, report on the cash basis of accounting. This presentation differs from accounting principles generally accepted in the United States of America (GAAP). The accompanying financial statements omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. Pursuant to Ohio Rev. Code Section 117.38 the School District may be fined and subject to various other administrative remedies for its failure to file the required financial report.

To help provide the users with more meaningful financial statements, the District should prepare their financial statements in accordance with generally accepted accounting principles.

**Response:** The Board of Education unanimously agreed to approve filing on GASB 34 cash basis year-end reports. Due to the continuous pressure to minimize cost under the current school funding system, the Board has agreed that costs associated with generating and auditing the reports on a GAAP basis exceeds the benefits received by filing GAAP financial reports.

**Marion Local School District  
Mercer County**

*Schedule of Prior Audit Findings  
June 30, 2012*

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Finding Number	Finding Summary	Fully Corrected	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No <u>Longer Valid</u> ; Explain
2011-001	Financial statement reported in accordance with GAGAS	No	Reissued as finding 2012-001



# Dave Yost • Auditor of State

**MARION LOCAL SCHOOL DISTRICT**

**MERCER COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
MARCH 5, 2013**