



**JIM PETRO**  
**AUDITOR OF STATE**  

---

**STATE OF OHIO**





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January 21, 2003

The attached audit was conducted and prepared for release prior to the commencement of my term of office on January 13, 2003. Thus, I am releasing this audit under the signature of my predecessor.

*Betty Montgomery*

BETTY MONTGOMERY  
Auditor of State



**MARION CITY SCHOOL DISTRICT  
MARION COUNTY**

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## REPORT OF INDEPENDENT ACCOUNTANTS

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

To the Board of Education:

We have audited the accompanying general purpose financial statements of the Marion City School District, Marion County, Ohio, (the District) as of and for the year ended June 30, 2002, as listed in the table of contents. These general purpose financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

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

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Marion City School District, Marion County, Ohio, as of June 30, 2002, and the results of its operations and the cash flows of its proprietary fund type and nonexpendable trust funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2002, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

We performed our audit to form an opinion on the general purpose financial statements of the District, taken as a whole. The accompanying schedule of federal awards receipts and expenditures is presented for additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the general purpose financial statements. We subjected this information to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

A handwritten signature in black ink, appearing to read "Jim Petro", with a large, stylized flourish at the end.

**JIM PETRO**  
Auditor of State

December 17, 2002



Marion City School District  
Marion County  
  
Combined Balance Sheet  
All Fund Types and Account Groups  
June 30, 2002

	Governmental Fund Types				Proprietary Fund Type	Fiduciary Fund Types	Account Groups		Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Trust and Agency	General Fixed Assets	General Long-Term Obligations	
<b>Assets and Other Debits:</b>									
<b>Assets:</b>									
Equity in Pooled Cash and Cash Equivalents	\$ 3,381,451	\$ 1,035,725	\$ 415,370	\$ 9,422,811	\$ 192,578	\$ 198,714	\$ 0	\$ 0	\$ 14,646,649
Cash and Cash Equivalents	0	0	0	11,024,000	0	0	0	0	11,024,000
Cash With Fiscal Agents	0	0	366	0	0	0	0	0	366
Investments	0	0	0	14,090,130	0	0	0	0	14,090,130
Receivables:									
Taxes	12,248,772	173,348	1,175,864	0	0	0	0	0	13,597,984
Accounts	130,369	35,184	0	0	1,201	0	0	0	166,754
Intergovernmental	100,049	420,646	0	31,465,441	107,837	0	0	0	32,093,973
Accrued Interest	2,821	0	0	0	0	0	0	0	2,821
Interfund Receivable	148,000	0	0	0	0	0	0	0	148,000
Prepaid Items	37,598	0	0	0	0	0	0	0	37,598
Materials and supplies Inventory	193,148	0	0	0	0	0	0	0	193,148
Inventory Held for Resale	0	0	0	0	73,297	0	0	0	73,297
Fixed Assets (Net, where applicable, of Accumulated Depreciation)	0	0	0	0	51,024	0	56,013,855	0	56,064,879
Other Debits:									
Amount available in Debt Service Fund	0	0	0	0	0	0	0	415,370	415,370
Amount to be Provided from General Government Resources	0	0	0	0	0	0	0	17,829,489	17,829,489
<b>Total Assets and Other Debits</b>	<b>\$ 16,242,208</b>	<b>\$ 1,664,903</b>	<b>\$ 1,591,600</b>	<b>\$ 66,002,382</b>	<b>\$ 425,937</b>	<b>\$ 198,714</b>	<b>\$ 56,013,855</b>	<b>\$ 18,244,859</b>	<b>\$ 160,384,458</b>

Marion City School District  
Marion County  
  
Combined Balance Sheet  
All Fund Types and Account Groups  
June 30, 2002

	Governmental Fund Types				Proprietary	Fiduciary	Account Groups		Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Trust and Agency	General Fixed Assets	General Long-Term Obligations	
Liabilities, Fund Equity and Other Credits:									
-----									
Liabilities:									
-----									
Accounts Payable	\$ 282,812	\$ 33,498	\$ 0	\$ 6,620	\$ 39,202	\$ 0	\$ 0	\$ 0	\$ 362,132
Contracts Payable	0	0	0	4,734,690	0	0	0	0	4,734,690
Accrued Wages	3,604,346	527,665	0	0	133,995	0	0	0	4,266,006
Compensated Absences Payable	202,024	2,484	0	0	81,253	0	0	2,646,706	2,932,467
Pension Obligation Payable	612,046	37,858	0	0	85,931	0	0	252,131	987,966
Interfund Payable	0	40,500	0	0	107,500	0	0	0	148,000
Deferred Revenue	8,623,729	294,752	788,570	31,187,170	0	0	0	0	40,894,221
Matured Interest Payable	0	0	366	0	0	0	0	0	366
Due to Students	0	0	0	0	0	72,463	0	0	72,463
Obligation under Capital Lease	0	0	0	0	0	0	0	26,022	26,022
General Obligation Bond Payable	0	0	0	0	0	0	0	15,320,000	15,320,000
-----									
Total Liabilities	13,324,957	936,757	788,936	35,928,480	447,881	72,463	0	18,244,859	69,744,333
-----									
Fund Equity and Other Credits:									
-----									
Investment in General Fixed Assets	0	0	0	0	0	0	56,013,855	0	56,013,855
Accumulated Deficit	0	0	0	0	(21,944)	0	0	0	(21,944)
Fund Balance:									
Reserved for Encumbrances	442,975	103,565	0	2,657,383	0	0	0	0	3,203,923
Reserved for Prepaid Items	37,598	0	0	0	0	0	0	0	37,598
Reserved for Materials & Supplies Inventory	193,148	0	0	0	0	0	0	0	193,148
Reserved for Taxes Unavailable for Appro.	3,627,864	50,958	387,294	0	0	0	0	0	4,066,116
Reserved for Scholarships	0	0	0	0	0	101,793	0	0	101,793
Reserved for Debt Service	0	0	415,370	0	0	0	0	0	415,370
Unreserved:									
Undesignated	(1,384,334)	573,623	0	27,416,519	0	24,458	0	0	26,630,266
-----									
Total Fund Equity and Other Credits	2,917,251	728,146	802,664	30,073,902	(21,944)	126,251	56,013,855	0	90,640,125
-----									
Total Liabilities, Fund Equity and Other Credits	\$ 16,242,208	\$ 1,664,903	\$ 1,591,600	\$ 66,002,382	\$ 425,937	\$ 198,714	\$ 56,013,855	\$ 18,244,859	\$ 160,384,458
=====									

The accompanying notes are an integral part of the general purpose financial statements.

Marion City Schools District  
Marion County

Combined Statement of Revenues, Expenditures  
and Changes in Fund Balances  
All Governmental Fund Types and Similar Trust Funds  
For the Fiscal Year Ended June 30, 2002

	-----Governmental Fund Types-----				Fiduciary Fund Type	Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Expendable Trusts	
<b>Revenues:</b>						
-----						
Taxes	\$ 10,852,483	\$ 144,577	\$ 1,092,248	\$ 0	\$ 0	\$ 12,089,308
Intergovernmental	25,366,357	3,674,840	136,101	30,599,078	0	59,776,376
Earnings on Investments	526,265	3,227	0	875,794	668	1,405,954
Tuition	64,004	676	0	0	0	64,680
Extracurricular Activities	0	131,995	0	0	0	131,995
Transportation Fees	39,595	0	0	0	0	39,595
Miscellaneous	30,732	126,086	0	80,717	6,000	243,535
<b>Total Revenues</b>	<b>36,879,436</b>	<b>4,081,401</b>	<b>1,228,349</b>	<b>31,555,589</b>	<b>6,668</b>	<b>73,751,443</b>
<b>Expenditures:</b>						
-----						
<b>Current:</b>						
<b>Instruction:</b>						
Regular	19,612,288	1,136,220	0	0	0	20,748,508
Special	3,865,480	1,702,970	0	0	0	5,568,450
Vocational	447,451	0	0	0	0	447,451
Adult/Continuing	13,880	72,192	0	0	0	86,072
Other	217,335	119	0	0	0	217,454
<b>Support Services:</b>						
Pupils	1,696,870	88,270	0	0	0	1,785,140
Instructional Staff	1,172,503	861,928	0	0	0	2,034,431
Board of Education	171,388	0	0	0	0	171,388
Administration	3,089,995	291,294	0	0	0	3,381,289
Fiscal	581,467	6,510	23,183	0	0	611,160
Business	386,363	0	0	0	0	386,363
Operation and Maintenance of Plant	3,126,009	0	0	0	0	3,126,009
Pupil Transportation	528,749	36,285	0	0	0	565,034
<b>Operation of Non-Instructional Services:</b>						
Services	310,092	133,503	0	0	6,000	449,595
Extracurricular Activities	430,920	156,375	0	0	0	587,295
Capital Outlay	109,913	0	0	28,601,131	0	28,711,044
<b>Debt Service:</b>						
Principal Retirement	6,281	0	255,000	0	0	261,281
Interest and Fiscal Charges	3,402	0	843,469	0	0	846,871
<b>Total Expenditures</b>	<b>35,770,386</b>	<b>4,485,666</b>	<b>1,121,652</b>	<b>28,601,131</b>	<b>6,000</b>	<b>69,984,835</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>1,109,050</b>	<b>(404,265)</b>	<b>106,697</b>	<b>2,954,458</b>	<b>668</b>	<b>3,766,608</b>
<b>Other Financing Sources (Uses):</b>						
-----						
Operating Transfers In	0	78,545	0	0	0	78,545
Operating Transfers Out	(296,550)	0	0	0	0	(296,550)
<b>Total Other Financing Sources (Uses)</b>	<b>(296,550)</b>	<b>78,545</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(218,005)</b>
<b>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</b>	<b>812,500</b>	<b>(325,720)</b>	<b>106,697</b>	<b>2,954,458</b>	<b>668</b>	<b>3,548,603</b>
<b>Fund Balances at Beginning of Year</b>	<b>2,005,462</b>	<b>1,053,866</b>	<b>695,967</b>	<b>27,119,444</b>	<b>11,017</b>	<b>30,885,756</b>
<b>Increase (Decrease) in Reserve for Inventory</b>	<b>99,289</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>99,289</b>
<b>Fund Balances at End of Year</b>	<b>\$ 2,917,251</b>	<b>\$ 728,146</b>	<b>\$ 802,664</b>	<b>\$ 30,073,902</b>	<b>\$ 11,685</b>	<b>\$ 34,533,648</b>

The accompanying notes are an integral part of the general purpose financial statements.

Marion City Schools District  
Marion County

Combined Statement of Revenues, Expenditures and  
Changes in Fund Balances - Budget and Actual (Budget Basis)  
All Governmental Fund Types  
For the Fiscal Year Ended June 30, 2002

	Governmental Fund Types					
	-----General Fund-----			-----Special Revenue Funds-----		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues:</b>						
-----						
Taxes	\$9,877,520	\$10,243,182	\$365,662	\$135,000	\$142,659	\$7,659
Earnings on Investments	580,000	557,181	(22,819)	1,902	3,227	1,325
Tuition and Fees	100,000	103,390	3,390	550	676	126
Extracurricular Activities	0	0	0	120,205	131,345	11,140
Intergovernmental Revenue	23,360,094	25,314,808	1,954,714	3,398,243	3,406,674	8,431
Miscellaneous	4,600	23,303	18,703	96,813	124,611	27,798
<b>Total Revenues</b>	<b>33,922,214</b>	<b>36,241,864</b>	<b>2,319,650</b>	<b>3,752,713</b>	<b>3,809,192</b>	<b>56,479</b>
<b>Expenditures:</b>						
-----						
<b>Current:</b>						
<b>Instruction:</b>						
Regular	20,456,075	19,678,856	777,219	1,132,920	1,114,145	18,775
Special	3,804,174	3,793,149	11,025	1,684,012	1,652,166	31,846
Vocational	492,743	490,981	1,762	0	0	0
Adult/Continuing	15,634	13,880	1,754	114,338	73,105	41,233
Other	234,434	233,901	533	0	0	0
<b>Support Services:</b>						
Pupils	1,796,014	1,788,540	7,474	120,881	100,792	20,089
Instructional Staff	1,214,675	1,202,586	12,089	929,773	837,035	92,738
Board of Education	207,647	203,935	3,712	0	0	0
Administration	3,216,632	3,208,317	8,315	388,757	302,072	86,685
Fiscal	587,717	578,865	8,852	13,246	6,517	6,729
Business	401,972	396,803	5,169	0	0	0
Operation and Maintenance of Plant	3,300,068	3,289,704	10,364	0	0	0
Pupil Transportation	571,972	566,862	5,110	40,363	36,237	4,126
Operation of Non-Instructional Services	310,255	310,092	163	158,478	142,635	15,843
Extracurricular Activities	528,072	436,353	91,719	203,129	174,300	28,829
Capital Outlay	115,677	115,599	78	0	0	0
Debt Service-Principal	0	0	0	0	0	0
Debt Service-Interest	0	0	0	0	0	0
<b>Total Expenditures</b>	<b>37,253,761</b>	<b>36,308,423</b>	<b>945,338</b>	<b>4,785,897</b>	<b>4,439,004</b>	<b>346,893</b>
<b>Excess of Revenues Over/(Under) Expenditures</b>	<b>(3,331,547)</b>	<b>(66,559)</b>	<b>3,264,988</b>	<b>(1,033,184)</b>	<b>(629,812)</b>	<b>403,372</b>
<b>Other Financing Sources (Uses):</b>						
-----						
Refund of Prior Year Expenditures	0	21,661	21,661	0	268	268
Operating Transfers In	0	0	0	78,545	78,545	0
Operating Transfers Out	(296,550)	(296,550)	0	0	0	0
Advances In	0	0	0	0	40,500	40,500
Advances Out	0	(148,000)	(148,000)	0	0	0
<b>Total Other Financing Sources (Uses)</b>	<b>(296,550)</b>	<b>(422,889)</b>	<b>(126,339)</b>	<b>78,545</b>	<b>119,313</b>	<b>40,768</b>
<b>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</b>	<b>(3,628,097)</b>	<b>(489,448)</b>	<b>3,138,649</b>	<b>(954,639)</b>	<b>(510,499)</b>	<b>444,140</b>
<b>Fund Balances at Beginning of Year</b>	<b>2,251,395</b>	<b>2,251,395</b>	<b>0</b>	<b>1,277,488</b>	<b>1,277,488</b>	<b>0</b>
<b>Prior Year Encumbrances Appropriated</b>	<b>1,007,038</b>	<b>1,007,038</b>	<b>0</b>	<b>135,277</b>	<b>135,277</b>	<b>0</b>
<b>Fund Balances (Deficit) at End of Year</b>	<b>(\$369,664)</b>	<b>\$2,768,985</b>	<b>\$3,138,649</b>	<b>\$458,126</b>	<b>\$902,266</b>	<b>\$444,140</b>

See accompanying notes to the general purpose financial statements.

Marion City Schools District  
Marion County

Combined Statement of Revenues, Expenditures and  
Changes in Fund Balances - Budget and Actual (Budget Basis)  
All Governmental Fund Types  
For the Fiscal Year Ended June 30, 2002

Governmental Fund Types						Totals (Memorandum Only)		
-----Debt Service Fund-----			-----Capital Projects Funds-----					
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
\$1,077,966	\$1,066,866	(\$11,100)	\$0	\$0	0	\$11,090,486	\$11,452,707	\$362,221
0	0	0	80,000	875,794	795,794	661,902	1,436,202	774,300
0	0	0	0	0	0	100,550	104,066	3,516
0	0	0	0	0	0	120,205	131,345	11,140
125,000	136,100	11,100	16,299,100	30,320,806	14,021,706	43,182,437	59,178,388	15,995,951
0	0	0	0	80,717	80,717	101,413	228,631	127,218
1,202,966	1,202,966	0	16,379,100	31,277,317	14,898,217	55,256,993	72,531,339	17,274,346
0	0	0	0	0	0	21,588,995	20,793,001	795,994
0	0	0	0	0	0	5,488,186	5,445,315	42,871
0	0	0	0	0	0	492,743	490,981	1,762
0	0	0	0	0	0	129,972	86,985	42,987
0	0	0	0	0	0	234,434	233,901	533
0	0	0	0	0	0	1,916,895	1,889,332	27,563
0	0	0	0	0	0	2,144,448	2,039,621	104,827
0	0	0	0	0	0	207,647	203,935	3,712
0	0	0	0	0	0	3,605,389	3,510,389	95,000
25,000	23,183	1,817	0	0	0	625,963	608,565	17,398
0	0	0	0	0	0	401,972	396,803	5,169
0	0	0	0	0	0	3,300,068	3,289,704	10,364
0	0	0	0	0	0	612,335	603,099	9,236
0	0	0	0	0	0	468,733	452,727	16,006
0	0	0	0	0	0	731,201	610,653	120,548
0	0	0	32,452,405	31,872,347	580,058	32,568,082	31,987,946	580,136
255,000	255,000	0	0	0	0	255,000	255,000	0
912,892	843,469	69,423	0	0	0	912,892	843,469	69,423
1,192,892	1,121,652	71,240	32,452,405	31,872,347	580,058	75,684,955	73,741,426	1,943,529
10,074	81,314	71,240	(16,073,305)	(595,030)	15,478,275	(20,427,962)	(1,210,087)	19,217,875
0	0	0	0	0	0	0	21,929	21,929
0	0	0	0	0	0	78,545	78,545	0
0	0	0	0	0	0	(296,550)	(296,550)	0
0	0	0	0	0	0	0	40,500	40,500
0	0	0	0	0	0	0	(148,000)	(148,000)
0	0	0	0	0	0	(218,005)	(303,576)	(85,571)
10,074	81,314	71,240	(16,073,305)	(595,030)	15,478,275	(20,645,967)	(1,513,663)	19,132,304
334,055	334,055	0	24,927,501	24,927,501	0	28,790,439	28,790,439	0
0	0	0	2,956,580	2,956,580	0	4,098,895	4,098,895	0
\$344,129	\$415,369	\$71,240	\$11,810,776	\$27,289,051	\$15,478,275	\$12,243,367	\$31,375,671	\$19,132,304

Marion City Schools District  
Marion County

Combined Statement of Revenues,  
Expenses and Changes in Accumulated Deficit/Fund Balance  
Proprietary Fund Type and Similar Trust Fund  
For the Year Ended June 30, 2002

	PROPRIETARY FUND	FIDUCIARY FUND	
	Enterprise Funds	Non-Expendable Trust	Totals (Memorandum Only)
	-----	-----	-----
Operating Revenues:			
-----			
Food Service Sales	\$ 741,408	\$ 0	\$ 741,408
Classroom Fee	17,397	0	17,397
Interest on Investments	0	5,515	5,515
Other	2,102	0	2,102
	-----	-----	-----
Total Operating Revenues	760,907	5,515	766,422
	-----	-----	-----
Operating Expenses:			
-----			
Salaries	729,145	0	729,145
Fringe Benefits	473,422	0	473,422
Purchased Services	145,370	0	145,370
Materials and Supplies	829,179	250	829,429
Depreciation	8,196	0	8,196
Other Operating Expenses	0	5,500	5,500
	-----	-----	-----
Total Operating Expenses	2,185,312	5,750	2,191,062
	-----	-----	-----
Operating Income (Loss)	(1,424,405)	(235)	(1,424,640)
	-----	-----	-----
Non-Operating Revenues (Expenses):			
-----			
Federal Donated Commodities	169,082	0	169,082
Operating Grants	1,100,450	0	1,100,450
Other Non-Operating Revenue	700	0	700
Interest and Fiscal Charges	(7)	0	(7)
	-----	-----	-----
Total Non-Operating Revenues (Expenses)	1,270,225	0	1,270,225
	-----	-----	-----
Income (Loss) Before Operating Transfers	(154,180)	(235)	(154,415)
	-----	-----	-----
Operating Transfers In	218,005	0	218,005
Net Income (Loss)	63,825	(235)	63,590
	-----	-----	-----
Accumulated Deficit/Fund Balance at Beginning of Year	(85,769)	114,801	29,032
	-----	-----	-----
Accumulated Deficit/Fund Balance at End of Year	(21,944)	114,566	92,622
	=====	=====	=====

The accompanying notes are an integral part of the financial statements.

Marion City Schools

Combined Statement of Cash Flows  
Proprietary Fund Type and Similar Trust Fund  
For the Fiscal Year Ended June 30, 2002

	PROPRIETARY FUND	FIDUCIARY FUND	Totals (Memorandum Only)
	Enterprise	Nonexpendable Trust	
<b>Cash Flows from Operating Activities:</b>			
Cash Received from Food Services	\$ 754,000	\$ 0	\$ 754,000
Cash Received from Other Operating Revenue	17,399	0	17,399
Cash Payments to Employees for Services	(737,787)	0	(737,787)
Cash Payments for Employee Benefits	(470,557)	0	(470,557)
Cash Payments to Suppliers for Goods and Services	(844,771)	(5,750)	(850,521)
<b>Net Cash Used for Operating Activities</b>	<b>(1,281,716)</b>	<b>(5,750)</b>	<b>(1,287,466)</b>
<b>Cash Flows from Noncapital Financing Activities:</b>			
Operating Grants Received	1,109,741	0	1,109,741
Operating Transfer In	218,005	0	218,005
Short-Term Loans from Other Funds	107,500	0	107,500
Principal Payments on Capital Lease	(713)	0	(713)
Interest Expense on Capital Lease	(7)	0	(7)
Other Non-Operating Revenues	700	0	700
<b>Net Cash Provided by Noncapital Financing Activities</b>	<b>1,435,226</b>	<b>0</b>	<b>1,435,226</b>
<b>Cash Flows from Capital and Related Financing Activities:</b>			
Payments for Capital Acquisitions	(16,426)	0	(16,426)
<b>Net Cash Used for Capital Activities</b>	<b>(16,426)</b>	<b>0</b>	<b>(16,426)</b>
<b>Cash Flows from Investing Activities</b>			
Earnings on Investments	0	5,515	5,515
<b>Net Cash Used for Capital Activities</b>	<b>0</b>	<b>5,515</b>	<b>5,515</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>137,084</b>	<b>(235)</b>	<b>136,849</b>
Cash and Cash Equivalents at Beginning of Year	55,494	114,801	170,295
<b>Cash and Cash Equivalents at End of Year</b>	<b>\$ 192,578</b>	<b>\$ 114,566</b>	<b>\$ 307,144</b>
<b>Reconciliation of Operating Loss to Net Cash Used for Operating Activities:</b>			
Operating Loss	\$ (1,424,405)	\$ (235)	\$ (1,424,640)
<b>Adjustments to Reconcile Operating (Loss) to Net Cash Used for Operating Activities</b>			
Depreciation	8,196	0	8,196
Donated Commodities Received During Year	169,082	0	169,082
Interest Reported as Operating Income	0	(5,515)	(5,515)
<b>Changes in Assets and Liabilities:</b>			
Decrease in Accounts Receivable	9,708	0	9,708
Decrease in Prepaid Items	720	0	720
Decrease in Inventory Held for Resale	(6,538)	0	(6,538)
Increase in Accounts Payable	7,625	0	7,625
Decrease in Accrued Wages	(13,803)	0	(13,803)
Increase in Compensated Absences Payable	4,329	0	4,329
Decrease in Deferred Revenue	(40,590)	0	(40,590)
Decrease in Pension Obligation	3,960	0	3,960
<b>Total Adjustments</b>	<b>142,689</b>	<b>(5,515)</b>	<b>137,174</b>
<b>Net Cash Used for Operating Activities</b>	<b>\$ (1,281,716)</b>	<b>\$ (5,750)</b>	<b>\$ (1,287,466)</b>
<b>Nonexpendable Trust Cash Reconciliation to Balance Sheet:</b>			
Trust and Agency Funds per Balance Sheet		\$ 198,714	
Less Agency Funds		(72,463)	
Less Expendable Trust Fund		(11,685)	
<b>Nonexpendable Trust Fund Cash Per Above</b>		<b>\$ 114,566</b>	

The accompanying notes are an integral part of the financial statements.

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**MARION CITY SCHOOL DISTRICT  
MARION COUNTY**

**NOTES TO THE COMBINED FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

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**NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT**

The School District is located in central Marion County in north central Ohio, approximately 50 miles north of Columbus, 90 miles southeast of Toledo, and 115 miles southwest of Cleveland. The District encompasses approximately 8 square miles.

The District is organized under Sections 2 and 3, Article VI of the Constitution of the State of Ohio. Under such laws, there is no authority for a school district to have a charter or adopt local laws. The legislative power of the District is vested in the Board of Education, consisting of five members elected at large for staggered four year terms.

The District ranks as the 47th largest by enrollment among the 612 districts in the State. It currently operates 11 elementary schools, 3 middle schools, and 1 comprehensive high school. The District employs 220 non-certified, 487 certified, and 30 administrative full-time and part-time employees to provide services to approximately 5880 students in grades K through 12, more than 3,000 adult education students, and various community groups.

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

The financial statements of the Marion City School District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District's significant accounting policies are described below.

**A. Reporting Entity**

The District's reporting entity has been defined in accordance with Governmental Accounting Standards Board (GASB) Statement 14, "The Financial Reporting Entity", effective for financial statements for periods beginning after December 15, 1992. The financial statements of the reporting entity include only those of the District (the primary government). The District has no component units. The following organizations are described due to their relationship to the District.

**Related Organization:**

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

**Jointly Governed Organizations:**

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

The district is a member of the Tri-Rivers Educational Computer Association, one of over two-dozen such consortiums in the State. This consortium was organized as a council-of-governments entity in accordance with Ohio statute.

**MARION CITY SCHOOL DISTRICT  
MARION COUNTY**

**NOTES TO THE COMBINED FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

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**B. Fund Accounting**

The District uses funds and account groups to report its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain school district activities or functions. Funds are classified into three categories: governmental, proprietary and fiduciary. Each category is divided into separate fund types.

***GOVERNMENTAL FUNDS***

Governmental funds are those through which most governmental functions of the District are financed. The acquisition, use and balances of the District's expendable financial resources and the related liabilities (except those accounted for in proprietary funds) are accounted for through governmental funds. The following are the District's Governmental Fund Types:

*General Fund* - The General Fund is the general operating fund of the District and is used to account for all financial resources except those required to be accounted for in another fund.

*Special Revenue Funds* - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than expendable trusts, or major capital projects) that are legally restricted to expenditures for specified purposes.

*Debt Service Fund* - The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

*Capital Projects Fund* - The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by Proprietary Funds and Trust Funds).

***PROPRIETARY FUNDS***

Proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector where the determination of net income is necessary or useful to sound financial administration. The following is the District's Proprietary Fund Type:

*Enterprise Funds* - Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises--where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

***FIDUCIARY FUNDS***

Fiduciary Funds are used to account for assets held by the District in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. These include Expendable Trust, Nonexpendable Trust and Agency Funds.

**MARION CITY SCHOOL DISTRICT  
MARION COUNTY**

**NOTES TO THE COMBINED FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

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***ACCOUNT GROUPS***

To make a clear distinction between fixed assets related to specific funds and those of general government, and between long-term liabilities related to specific funds and those of general nature, the following account groups are used:

*General Fixed Assets Account Group* - This group of accounts is established to account for all fixed assets of the District, other than those accounted for in the Proprietary Funds and Trust Funds.

*General Long-Term Obligations Account Group* - This group of accounts is established to account for all long-term obligations of the District except those accounted for in the Proprietary funds and Trust funds.

**C. Measurement Focus/Basis of Accounting**

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All Governmental funds and Expendable Trust funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

All Proprietary and Nonexpendable Trust funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations of these funds are included on the balance sheet. Proprietary Fund Type operating statements present increases (revenues) and decreases (expenses) in net total assets.

The modified accrual basis of accounting is followed for Governmental and Expendable Trust funds. Under the modified accrual basis of accounting, revenues are recognized when they become both measurable and available to finance expenditures of the current period, which for the District is sixty days after the June 30 year end. Grants and entitlements must also meet timing, eligibility and contingency requirements. Revenues accrued at the end of the fiscal year include interest, tuition, grants and entitlements, and accounts (student fees and rent). Current property taxes measurable as of June 30, 2002, and which are intended to finance fiscal 2003 operations, have been recorded as deferred revenues. Delinquent property taxes measurable and available (received within 60 days) and amounts available as an advance on future tax settlements are recognized as revenue at fiscal yearend. Taxes available for advance and recognized as revenue but not received by the District prior to June 30, 2002, are reflected as a reservation of fund balance for future appropriations. The District is prohibited by law from appropriating this revenue in accordance with ORC Section 5705.35, since an advance of revenue was not requested or received prior to the fiscal yearend.

The District reports deferred revenue on its combined balance sheet. Deferred revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

**MARION CITY SCHOOL DISTRICT  
MARION COUNTY**

**NOTES TO THE COMBINED FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

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Expenditures (decreases in net financial resources) are recognized in the period in which the fund liability is incurred with the following exceptions: general long-term obligation principal and interest are reported only when due; and the costs of accumulated unpaid vacation and sick leave are reported as expenditures in the period in which they will be liquidated with available financial resources rather than in the period earned by employees.

The Proprietary and Nonexpendable Trust funds are accounted for on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

**D. Budgets**

The District is required by state statute to adopt an annual appropriated cash basis budget for all funds. The specific timetable for fiscal year 2002 is as follows:

1. 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 expressed purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the board-adopted budget is filed with the Marion County Budget Commission for tax rate determination.
3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding fiscal year as reported by the District Treasurer. The Certificate may be further amended during the fiscal year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statement reflect the amounts set forth in the final Amended Certificate issued for fiscal year 2002.
4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund, function, and object level of expenditures, which are the legal levels of budgetary control. (State statute permits a temporary appropriation to be effective until no later than October 1 of each fiscal year.) Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals.
5. 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.
6. Formal budgetary integration is employed as a management control device during the fiscal year for all funds consistent with the general obligation bond indenture and other statutory provisions.

**MARION CITY SCHOOL DISTRICT  
MARION COUNTY**

**NOTES TO THE COMBINED FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

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7. Appropriation amounts are as originally adopted, or as amended by the Board of Education through the fiscal year by supplemental appropriations which either reallocated or increased the original appropriated amounts. All supplemental appropriations during fiscal 2002 were legally enacted by the Board as follows:

	<u>INCREASE/ (DECREASE)</u>
<b>General</b>	\$2,242,603
<b>Special Revenue</b>	(188,146)
<b>Debt Service</b>	-
<b>Capital Projects</b>	26,294,272
<b>Enterprise</b>	74,361
<b>Internal Service</b>	-
<b>Trusts</b>	16,700
<b>Agency</b>	<u>33,420</u>
<b>TOTAL</b>	<u>\$28,473,210</u>

8. Unencumbered appropriations lapse at fiscal yearend. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Cash disbursements plus encumbrances may not legally exceed budgeted appropriations at the fund, function and/or object level.

Encumbrance accounting is utilized with District funds in the normal course of operations, for purchase orders and contract-related expenditures. An encumbrance is a reserve on the available spending authority due to commitment for a future expenditure and does not represent a liability. For Governmental Fund Types, encumbrances outstanding at fiscal yearend (not recognized as accounts payable) appear as a reserve to the fund balance on a GAAP basis and as the equivalent of expenditures on a NON-GAAP budgetary basis in order to demonstrate legal compliance. Note 15 provides a reconciliation of the budgetary and GAAP basis of accounting. Encumbrances for Proprietary Funds are disclosed in the notes to the financial statements.

**E. Cash and Investments**

To improve cash management, cash received by the School District is pooled. Monies for all funds, except a portion of the capital projects funds, are maintained in this pool. Individual fund balance integrity is maintained through the School District's records. Each fund's interest in the pool is presented as "Equity in pooled cash" on the combined balance sheet.

During fiscal year 2002, investments were limited to STAROhio, repurchase agreements, certificates of deposit, mutual funds, treasury notes and federal agency securities.

Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investments contracts such as repurchase agreements and nonnegotiable certificates of deposit are reported at cost.

**MARION CITY SCHOOL DISTRICT  
MARION COUNTY**

**NOTES TO THE COMBINED FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

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The school district has invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during fiscal year 2002. STAR Ohio is an investment pool managed by the State Treasurer's office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2002.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2002 amounted to \$526,265.

For purposes of the combined statement of cash flows and for presentation on the combined balance sheet, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the School District are considered to be cash equivalents.

An analysis of the Treasurer's investment account at fiscal yearend is provided in Note 4.

**F. Inventory**

Inventories for all Governmental funds are valued at cost (first-in/first-out method). The purchase method is used to account for inventories. Under the purchase method, inventories are recorded as expenditures when purchased; however, material amounts of inventories at period-end are reported as assets of the respective fund, which are equally offset by a fund balance reserve which indicates they are unavailable for appropriation even though they are a component of reported assets. Inventories of Proprietary funds are valued at the lower of cost (first-in/first-out method) or market and expensed when used rather than when purchased.

**G. Fixed Assets and Depreciation**

**1. General Fixed Assets Account Group**

General fixed assets are capitalized at cost (or estimated historical cost except for land values, which are Marion County Auditor's market values) and updated for the cost of additions and retirements during the fiscal year in the General Fixed Assets Account Group. Donated fixed assets are recorded at their fair market values as of the date donated. The District has a policy of not capitalizing assets with a cost of less than \$500 and a useful life of less than five years. No depreciation is recognized for assets in the General Fixed Assets Account Group. The District has not included infrastructure in the General Fixed Asset Account Group. Interest on debt issued to construct general fixed assets is not capitalized in the account group.

**2. Proprietary**

Equipment reflected in these funds is stated at historical cost (or estimated historical cost) and updated for the cost of additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date donated. Depreciation has been provided, where appropriate, on a straight-line basis over the following estimated useful lives:

**MARION CITY SCHOOL DISTRICT  
MARION COUNTY**

**NOTES TO THE COMBINED FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

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<u>Asset</u>	<u>Life (years)</u>
<b>Buildings</b>	<b>25-50</b>
<b>Furniture, Fixtures and Minor Equipment</b>	<b>5-20</b>
<b>Vehicles</b>	<b>4-6</b>

**H. Intergovernmental Revenues**

In Governmental funds, entitlements and non-reimbursable grants (to the extent such grants and entitlements relate to the current fiscal year) are recorded as receivables and revenue when measurable and available. Reimbursement-type grants are recorded as receivables and revenues when the related expenditures are incurred. Grants for Proprietary fund operations are recognized as revenue when measurable and earned. Grants and entitlements must also meet timing, eligibility and contingency requirements. The District currently participates in various state and federal programs categorized as follows:

**Entitlements**

**General Fund**

**State Foundation Program  
State Property Tax Relief**

**Special Revenue Funds**

**Disadvantaged Pupil Impact Aid  
Auxiliary Services**

**Non-Reimbursable Grants**

**Special Revenue Funds**

**Reading Recovery  
Professional Development  
Training Ohio Parents For Success  
Management Information Systems  
Data Communications  
School Net Professional Development  
Ohio Reads  
Summer Intervention  
Extending Learning Opportunity  
Adult Basic Education  
Education for Economic Security  
Title VI-B  
Excellence in Education  
Title I  
Title VI  
Drug-Free Schools  
Comprehensive School Reform**

**Pre-school for the Handicapped  
Goals 2000  
Class Size Reduction**

MARION CITY SCHOOL DISTRICT  
MARION COUNTY

NOTES TO THE COMBINED FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

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Capital Project Funds

School Net  
Classroom Facilities  
Technology Equity

Reimbursable Grants

General Fund

School Bus Purchases  
CAFS

Proprietary

National School Lunch Program  
National School Breakfast Program  
Summer Food Service Program  
Adult Education

*Grants and entitlements amounted to approximately 81% of the District's total revenue during the 2002 fiscal year.*

**I. Short-Term Interfund Receivables/Payables**

*At June 30, 2002 the District had short-term interfund loans which are classified as "interfund receivable/payable." All such short-term interfund loans are made pursuant to Board of Education resolution and are repaid in the following fiscal year. An analysis of interfund balances is reflected in Note 5.*

**J. Compensated Absences**

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

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

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



**MARION CITY SCHOOL DISTRICT  
MARION COUNTY**

**NOTES TO THE COMBINED FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

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Accumulated vacation and severance liability of Governmental Fund Type employees meeting the above requirements have been recorded in the appropriate Governmental fund as a current liability to the extent that the amounts are expected to be payable within the current available period. The balance of the liability is recorded in the General Long-Term Obligations Account Group. Vacation and severance liability for employees meeting the above requirements who are paid from Proprietary funds is recorded as an expense when earned.

**K. Long-Term Obligations**

Long-term debt is recognized as a liability of a Governmental fund when due, or when resources have been accumulated in the Debt Service Fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a Governmental fund. The remaining portion of such obligations is reported in the General Long-Term Obligations Account Group. Long-term liabilities expected to be financed from Proprietary fund operations are accounted for in those funds.

**L. Fund Equity**

Reserved fund balances indicate that portion of fund equity which is not available for current appropriation or is legally segregated for a specific use. Fund balances are reserved for encumbrances, materials and supplies inventory, prepaids, and tax revenue unavailable for appropriation. In addition, although the Nonexpendable Trust Fund uses the total economic resources measurement focus, the fund equity is reserved for the amount of the principal endowment, and for available cash from which student scholarship awards will be made. The unreserved portions of fund equity reflected for the Governmental funds are available for use within the specific purposes of those funds.

**M. Interfund Transactions**

Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/ expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Non-recurring or non-routine permanent transfers of equity are reported as residual equity transfers.

All other interfund transfers are reported as operating transfers. An analysis of the District's operating transfers for fiscal 2002 is presented in Note 5.

**N. Prepaids and Deferrals**

Prepayments and deferrals for Governmental funds represent cash disbursements which have occurred and are therefore not current expendable resources. These items are reported as fund assets on the balance sheet using the allocation method, which amortizes their cost over the periods benefitting from the advance payment. At period-end, because prepayment and deferrals are not available to finance future Governmental fund expenditures, the fund balance is reserved by an amount equal to the carrying value of the asset.

**O. Estimates**

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

**MARION CITY SCHOOL DISTRICT  
MARION COUNTY**

**NOTES TO THE COMBINED FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

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**P. Statement of Cash Flows**

In September 1989, the Governmental Accounting Standards Board (GASB) issued Statement No. 9, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting." The District has presented (Exhibit 5) a statement of cash flows for its Enterprise and Nonexpendable Trust funds. For purposes of the statement of cash flows, the District considers cash equivalents to include all short term investments (maturity of 90 days or less from date of purchase).

**Q. Parochial Schools**

Within the District boundaries, St. Mary's Elementary and Marion Catholic High School are operated through the Columbus Catholic Diocese. Current state legislation provides funding to these parochial schools. These monies are received and disbursed on behalf of the parochial schools by the Treasurer of the District, as directed by the parochial school. The receipt and expenditure of these state monies by the District are reflected in a Special Revenue fund for financial reporting purposes.

**R. Financial Reporting for Proprietary and Similar Fund Types**

The District's financial statements have been prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting." This Statement is effective for financial statements beginning after December 15, 1993. The District accounts for its proprietary activities in accordance with all applicable GASB pronouncements, as well as pronouncements of the Financial Accounting Standards Board (FASB) and its predecessors issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

**S. Memorandum Only - Total Columns**

Total columns on the General Purpose Financial Statements are captioned (Memorandum Only) to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or cash flows in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

**MARION CITY SCHOOL DISTRICT  
MARION COUNTY**

**NOTES TO THE COMBINED FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

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**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE**

Deficit Fund Balances/Retained Earnings

Fund balance/retained earnings at June 30, 2002 included the following individual fund deficits:

<u>Enterprise Funds</u>	
Food Service	(\$80,616)

This GAAP deficit will be funded by anticipated future intergovernmental revenues or other subsidies not recognized and recorded at June 30.

**NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS**

Statutes require the classification of monies held by the 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 the Board of Education has identified as not required for use within the current two year period of designation of depositories. Inactive deposits must be either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories or by savings accounts 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 maturing not more than one year from the date of deposit or by savings accounts, including passbook accounts.

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

Interim monies may be invested in the following:

1. United States Treasury bills, bonds, notes or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or other obligations of securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association and the Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements for a period not to exceed thirty days in securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily and must mature within five years from the date of purchase;

**MARION CITY SCHOOL DISTRICT  
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**NOTES TO THE COMBINED FINANCIAL STATEMENTS  
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4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions mentioned in section 135.03 of the Revised Code;
6. The State Treasurer's Investment pool;
7. Certain commercial paper and bankers' acceptances up to twenty-five percent of interim money available for investment at any one time subject to various limitations; and
8. Under limited circumstances, corporate debt interest rated in either of the two highest rated classifications by at least two nationally recognized agencies;

Cash on Hand. At fiscal year end, the School District had \$1,935 in undeposited cash on hand which is included on the balance sheet of the School District as part of "Equity in Pooled Cash and Cash Equivalents."

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

*Deposits:* At year end, the carrying amount of the District's deposits was \$5,508,932 and the bank balance was \$6,971,689.

Of the bank balance, \$500,000 was covered by federal depository insurance; \$639,840 was collateralized with securities held by the pledging financial institution's trust department or agent in the District's name; \$5,809,763 was covered by collateral held by third party trustees pursuant to Section 135.181 of the Ohio Revised Code, in collateral pools securing all public funds on deposit with the District's depositories; and \$22,087 was uncollateralized.

Collateral is required for all deposits not covered by federal depository insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies, obligations of the State of Ohio and its municipalities, and obligations of the other states.

*Investments:* Investments are categorized to give an indication of the level of risk assumed by the entity at yearend. Category 1 includes investments that are insured or registered or securities held by the District. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department, but not in the District's name.

**MARION CITY SCHOOL DISTRICT  
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**NOTES TO THE COMBINED FINANCIAL STATEMENTS  
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<u>Value</u>	<u>Carrying Value</u>	<u>Fair</u>
<b>Category 2:</b>		
U.S. Government Securities	\$14,090,130	\$14,090,130
Repurchase Agreements	11,998,000	11,998,000
<b>Not Subject to Categorization:</b>		
Mutual Funds	1,194,224	1,194,224
Investment in State Treasurer's Investment Pool	<u>6,967,558</u>	<u>6,967,558</u>
<b>Total Investments</b>	<b><u>\$33,055,688</u></b>	<b><u>\$33,055,688</u></b>

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

	<u>Cash Equivalents</u>	<u>Cash and Investments</u>
<b>Combined Balance Sheet</b>	<b>\$25,671,015</b>	<b>\$14,090,130</b>
<b><u>Reclassifications:</u></b>		
Repurchase Agreements	(11,998,000)	11,998,000
Bond & Coupon Account	(366)	
Cash on Hand	(1,935)	
Mutual Funds	(1,194,224)	1,194,224
State Treasurer's Investment Pool	<u>(6,967,558)</u>	<u>6,967,558</u>
<b>Per GASB Statement No. 3</b>	<b><u>\$5,508,932</u></b>	<b><u>\$34,249,912</u></b>

Ohio Revised Code Chapter 135, Uniform Depository Act, authorizes pledging of pooled securities in lieu of pledging specific securities. Specifically, a designated public depository may pledge a single pool of eligible securities to secure the repayment of all public monies deposited in the financial institution, provided that at all times the total value of the securities so pledged is at least equal to 105% of the total amount of all public deposits secured by the pool, including the portion of such deposits covered by any federal deposit insurance.

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**NOTES TO THE COMBINED FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

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**NOTE 5 - INTERFUND TRANSACTIONS**

**A. Interfund Loans Payable/Receivable**

Interfund balances at June 30, 2002, consist of the following individual interfund loans receivable and/or payable:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
<u>General Fund</u>	\$148,000	
<u>Special Revenue Funds</u>		
Preschool Grant		\$12,500
Title VI-R Classroom Reduction		28,000
<u>Enterprise Funds</u>		
Food Service	_____	<u>107,500</u>
<b>Total</b>	<b><u>\$148,000</u></b>	<b><u>\$148,000</u></b>

**B. The following is a reconciliation of the District's operating transfers for fiscal year 2002:**

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers (Out)</u>
<u>General Fund</u>	-	\$(296,550)
<u>Special Revenue Funds</u>		
District-Managed Activity	75,000	-
Children Trust	3,545	-
<u>Enterprise</u>		
Food Service Fund	<u>218,005</u>	-
<b>Totals</b>	<b><u>\$296,550</u></b>	<b><u>\$(296,550)</u></b>

**MARION CITY SCHOOL DISTRICT  
MARION COUNTY**

**NOTES TO THE COMBINED FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

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**NOTE 6 - PROPERTY TAXES**

Property taxes are levied and assessed on a calendar year basis. Distributions from the second half of the calendar year occur in a new fiscal year and are intended to finance the operations of that year. Property taxes include amounts levied against all real, public utility and tangible (used in business) property located in the District.

Real property taxes and public utility taxes are levied after April 1 on the assessed value listed as of the prior January 1, the lien date. Assessed values are established by State law at 35% of appraised market value.

Public utility property taxes are assessed on tangible personal property, as well as land and improvements. Real property is assessed at 35% of market value and personal property is assessed at 100% of market value except for the personal property of rural electric companies which is assessed 50% of market and railroads which are assessed at 29%.

Tangible personal property taxes attach as a lien and are levied on January 1 of the current year. Tangible personal property assessments are 25% of true value.

Real property taxes are payable annually or semi-annually. If paid annually, payment is due January 20; if paid semi-annually, the first payment is due January 20 with the remainder payable by June 20.

The County Treasurer collects property tax on behalf of the District. The County Auditor periodically remits to the District its portion of the taxes collected. These tax "advances" are based on statutory cash flow collection rates. Final "settlements" are made each February and August.

Accrued property taxes receivable represent delinquent taxes outstanding and real property, personal property and public utility taxes which became measurable as of June 30, 2002. Although total property tax collections for the next fiscal year are measurable, they are not (exclusive of real tax advances of the August settlement available June 30) intended to finance current fiscal year operations. The net receivable (total receivable less amount available intended to finance the current year) is therefore offset by a credit to deferred revenue.

The assessed values upon which fiscal year 2002 taxes were collected are:

2001 First- <u>Half Collections</u>	2002 Second- <u>Half Collections</u>
----------------------------------------	-----------------------------------------

**NOTE 7 - RECEIVABLES**

Receivables at June 30, 2002 consisted of taxes, accounts (other local revenue and tuition fees), and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of Federal funds. A summary of the principal items of receivables follows:

**MARION CITY SCHOOL DISTRICT  
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**NOTES TO THE COMBINED FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

	<u>Amounts</u>
<b><u>General Fund</u></b>	
Taxes - Current & Delinquent	\$12,248,772
Accounts Receivable	130,369
Accrued Interest Receivable	2,821
Intergovernmental	100,049
 <b><u>Special Revenue Funds</u></b>	
Taxes Receivable	173,348
Intergovernmental	420,646
Accounts Receivable	35,184
 <b><u>Debt Service Funds</u></b>	
Taxes-Current & Delinquent	1,175,864
 <b><u>Capital Project Funds</u></b>	
Intergovernmental Receivable	31,465,441
 <b><u>Enterprise Funds</u></b>	
Accounts Receivable	1,201
Intergovernmental	107,837

**NOTE 8 - FIXED ASSETS**

A summary of the changes in the General Fixed Asset Account Group during the fiscal year follows:

	<u>Balance</u> <u>July 1, 2001</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2002</u>
Land/ Improvements	\$ 4,640,585	1,952,126	-	\$ 6,592,711
Buildings	17,491,057	166,857	-	17,657,914
Construction in Progress	-	22,489,071	-	22,489,071
Furniture/ Equipment	7,817,507	524,070	-	8,347,877
Vehicles	299,538	6,300	-	299,538
Buses	<u>583,689</u>	<u>43,055</u>	<u>-</u>	<u>626,744</u>
<b>Total</b>	<b><u>\$30,832,376</u></b>	<b><u>\$25,181,479</u></b>	<b><u>\$ -</u></b>	<b><u>\$56,013,855</u></b>

A summary of the Proprietary fixed assets at June 30, 2002 follows:

	<u>Proprietary</u>
Furniture and Equipment	\$277,539
Less Accumulated Depreciation	<u>(226,515)</u>
<b>Net Fixed Assets</b>	<b><u>\$ 51,024</u></b>

**NOTE 9 - CAPITALIZED LEASES - LESSEE DISCLOSURE**

The District has entered into capitalized leases for the acquisition of reproduction equipment, food service equipment and school buses.



**MARION CITY SCHOOL DISTRICT  
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**NOTES TO THE COMBINED FINANCIAL STATEMENTS  
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The terms of each agreement provide options to purchase the equipment. Each lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13 "Accounting for Leases" which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee at the conclusion of the lease term. Capital lease payments have been reclassified and are reflected as debt service expenditures in the Combined Financial Statement of Revenues, Expenditures and Changes in Fund Balances for the Governmental Fund Types and Expendable Trust Funds. These expenditures are reflected as program/function expenditures on a budgetary basis. General fixed assets acquired by lease have been capitalized in the General Fixed Asset Account Group in an amount equal to the present value of the future minimum lease payments as of the date of their inception. A corresponding liability was recorded in the General Long-Term Obligations Account Group. Principal payments in the 2002 fiscal year totaled \$6,281. This amount is reflected as Debt Service Principal Retirement in the General Fund.

The following is an analysis of equipment leased under capital leases as of June 30, 2002:

	<u>General Fixed Assets</u>
<b>Equipment (copiers &amp; food service)</b>	<u><b>\$52,219</b></u>
<b>Carrying Value</b>	<u><b>\$52,219</b></u>

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the future minimum lease payments as of June 30, 2002:

<u>June 30 Year Ending</u>	<u>General Long Term Obligation</u>
2003	\$ 9,683
2004	9,683
2005	9,684
2006	<u>2,227</u>
<b>Total Minimum Lease Payments</b>	<b>31,277</b>
<b>Less: Amount Representing Interest Present Value of Future Minimum Lease Payment</b>	<u><b>(5,255)</b></u>  <u><b>\$26,022</b></u>

**NOTE 10 - LONG-TERM DEBT**

During the 2001 fiscal year, the District issued General Obligation Bonds to provide funds for constructing a high school and three elementary schools; renovating, remodeling and improving existing school buildings and facilities, including converting the existing middle school to an elementary school, improving access for the disabled and health and safety upgrades; furnishing and equipping the same, including technology for classroom instruction; and landscaping and improving the sites thereof. The General Obligation Bonds is a general obligation of the District contains a pledge of the full faith and credit of the District. Accordingly, such unmatured obligations of the District are accounted for in the General Long-Term Debt Account Group. Payments of principal and interest relating to the General Obligation Bonds are recorded as an expenditure in the Debt Service Fund. The source of payment is derived from a current 3.69 mill bonded debt tax levy.

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**NOTES TO THE COMBINED FINANCIAL STATEMENTS  
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This General Obligation Bonds represents the amount of the construction project that the District itself was required to finance, in accordance with the terms of the Ohio School Facilities Commission (OSFC). OSFC will make quarterly disbursements to the District as the project is completed.

In conjunction with the 3.69 mills which supports the General Obligation Bonds, the District also passed in fiscal year 2000 a .5 mill levy to ultimately fund the maintenance costs of the new facility. Tax revenue from this levy has been reported in the Special Revenue Funds.

The following is a description of the Marion City School District General Obligation Bond outstanding as of June 30, 2002:

<u>Issue</u>	<u>Interest Rate</u>	<u>IssueMaturity Date Date</u>	<u>Balance 6/30/02</u>
<b>School Facilities Construction &amp; Improvement Bonds</b>	4.4% - 5.36%	8/18/0012/01/22	\$ 15,320,000

Principal and Interest requirement to retire the School districts General Obligation Bonds outstanding at June 30, 2002, were as follows:

<u>Fiscal Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	330,000	837,891	\$1,167,891
2004	355,000	822,876	1,177,876
2005	380,000	806,546	1,186,546
2006	470,000	788,876	1,258,876
2007	505,000	766,786	1,271,786
2008-2012	2,965,000	3,439,286	6,404,286
2013-2017	3,930,000	2,471,367	6,401,367
2018-2023	<u>6,385,000</u>	<u>1,298,462</u>	<u>7,683,462</u>
<b>Totals</b>	<b><u>\$15,320,000</u></b>	<b><u>\$11,232,090</u></b>	<b><u>\$26,552,090</u></b>

- B. During the fiscal year ended June 30, 2002, the following changes occurred in liabilities reported in the General Long-Term Obligations Account Group. Compensated absences and the pension obligation will ultimately be paid from the fund from which the employee is paid.

**MARION CITY SCHOOL DISTRICT  
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**NOTES TO THE COMBINED FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

	<u>Balance</u> <u>July 1, 2001</u>	<u>Increase</u>	<u>(Decrease)</u>	<u>Balance</u> <u>June 30, 2002</u>
General Obligation Bonds	\$15,575,000	\$ -	\$ (255,000)	\$15,320,000
Compensated Absences	2,524,912	121,794	-	2,646,706
Pension Obligation	217,190	252,131	(217,190)	252,131
Capital Leases	<u>32,303</u>	<u>-</u>	<u>(6,281)</u>	<u>26,022</u>
<b>TOTAL</b>	<b><u>\$18,349,405</u></b>	<b><u>\$373,925</u></b>	<b><u>\$ (478,471)</u></b>	<b><u>\$18,244,859</u></b>

**C. Legal Debt Margin**

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

The effects of these debt limitations at June 30, 2002 are a voted debt margin of \$19,056,065 (including available funds of \$415,370) and an unvoted debt margin of \$377,341.

**NOTE 11 - RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, injuries to employees and natural disasters.

During fiscal year 2002, the District purchased from Nationwide Insurance Company (through the Ohio School Boards' Association) general liability insurance, which carried a \$2 million per occurrence/\$5 million annual aggregate limit.

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

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

***OSBA WORKER'S COMPENSATION GROUP RATING***

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

**NOTE 12 - SEGMENT INFORMATION - ENTERPRISE FUNDS**

The District maintains three Enterprise funds to account for the operations of food service, uniform school supplies, and adult education programs. The table below reflects, in a summarized format, the more significant financial data relating to the Enterprise Funds of the District as of and for the year ended June 30, 2002.

**MARION CITY SCHOOL DISTRICT  
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**NOTES TO THE COMBINED FINANCIAL STATEMENTS  
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	<u>Food Service</u>	<u>Uniform Supplies</u>	<u>Adult Education</u>	<u>Total</u>
Operating Revenue	\$743,553	\$17,354	\$ -	\$760,907
Operating Expense	2,115,817	11,821	57,674	2,185,312
Depreciation	7,344	-	852	8,196
Operating Income (Loss)	(1,372,264)	5,533	(57,674)	(1,424,405)
Operating Grants	1,024,879	-	75,571	1,100,450
Transfers-In	218,005	-	-	218,005
Net Income (Loss)	40,430	5,497	17,898	63,825
Property, plant and equipment Additions	15,800	-	626	16,426
Working Capital	40,785	15,783	37,648	94,216
Net Cash Flow	111,202	5,559	20,323	137,084
Total Assets	364,909	15,783	45,245	425,937
Total Liabilities	445,525	-	2,356	447,881
Total Equity	(80,616)	15,783	42,889	(21,944)
Encumbrances Outstanding as of 6/30/02	11,946	348	2,999	15,293

**NOTE 13 - DEFINED BENEFIT PENSION PLANS**

**A. SCHOOL EMPLOYEES RETIREMENT SYSTEM**

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer public employee retirement system administered by the School Employees Retirement Board. SERS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information for SERS. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3634.

Plan members are required to contribute 9 percent of their annual covered salary and the District is required to contribute 14 percent for 2002; 5.46 percent was the portion to fund pension obligations. The contribution rates are not determined actuarially, but are established by the School Employees Retirement Board within the rates allowed by State statute. The adequacy of the contribution rates is determined annually. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2002, 2001, and 2000 were \$231,295, \$683,300, and \$597,127, respectively; 44 percent has been contributed for fiscal year 2002 and 100 percent for the fiscal year 2001. \$128,443, representing the unpaid contribution for fiscal year 2002, is recorded as a liability within the respective funds and the general long-term obligations account group.

**A. STATE TEACHERS RETIREMENT SYSTEM**

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information for STRS. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

**MARION CITY SCHOOL DISTRICT  
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**NOTES TO THE COMBINED FINANCIAL STATEMENTS  
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Plan members are required to contribute 9.3 percent of their annual covered salary and the District is required to contribute 14 percent; 9.5 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2002, 2001, and 2000 were \$2,179,614, \$3,259,795, and \$2,939,598, respectively; 83 percent has been contributed for fiscal year 2002 and 100 percent for the fiscal year 2002. \$378,583, representing the unpaid contribution for fiscal year 2002, is recorded as a liability within the respective funds.

**B. 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, 2002, members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid.

**NOTE 14 - POSTEMPLOYMENT BENEFITS**

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

The State Teachers Retirement Board has authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of the coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year 2002, the Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$1,032,449.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$3.256 billion at June 30, 2001 (the latest information available). For the fiscal year ended June 30, 2001, net health care costs paid by STRS were \$300,772,000 and STRS had 102,132 eligible benefit recipients.

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

**MARION CITY SCHOOL DISTRICT  
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**NOTES TO THE COMBINED FINANCIAL STATEMENTS  
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For this fiscal period, employer contributions to fund health care benefits were 8.54 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2002, the minimum pay had been established at \$12,400. For the School District, the amount to fund health care benefits, including the surcharge, was \$394,340 for the fiscal year 2002.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2001 (the latest information available), were \$161,439,934 and the target level was \$242.2 million. At June 30, 2001, SERS had net assets available for payment of health care benefits of \$315.7 million. SERS has approximately 50,000 participants currently receiving health care benefits.

**NOTE 15 - BUDGETARY BASIS OF ACCOUNTING**

While reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts and disbursements.

The Combined Statement of Revenue, Expenditures, and Changes in Fund Balances - Budget and Actual - All Governmental Fund Types is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) 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 an expenditure, as opposed to a reservation of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis).

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the governmental funds are as follows:

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**NOTES TO THE COMBINED FINANCIAL STATEMENTS  
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**Excess of Revenues and Other Financing Sources  
Over (Under) Expenditures and Other Financing Uses  
Governmental Fund Types**

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Debt Service Fund</u>	<u>Capital Projects Funds</u>
<b>Budget Basis</b>	\$(489,448)	\$(510,499)	\$81,314	\$(595,030)
<b>Net Adjustment for Revenue Accruals</b>	615,911	231,441	25,383	278,272
<b>Net Adjustment for Expenditure Accruals</b>	73,572	(180,121)	-	(3,976,676)
<b>Adjustment for Encumbrances</b>	<u>612,465</u>	<u>133,459</u>	<u>-</u>	<u>7,247,892</u>
<b>GAAP Basis</b>	<u>\$812,500</u>	<u>\$(325,720)</u>	<u>\$106,697</u>	<u>\$2,954,458</u>

**NOTE 16 - CONTINGENT LIABILITIES**

**A. Grants**

The District receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the District at June 30, 2002.

**B. Litigation**

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

**C. School Funding Decision**

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

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

**NOTE 17 -- STATUTORY RESERVES (Cash Basis)**

The District is required by state law to set aside certain general fund revenue amounts, as defined into various reserves. During fiscal year ended June 30, 2002, the reserve activity was as follows:

**MARION CITY SCHOOL DISTRICT  
MARION COUNTY**

**NOTES TO THE COMBINED FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

	<u>Textbook</u>	<u>Capital</u>	<u>Total</u>
Balance 7/1/01	\$ -	\$ -	\$ -
Required Set-Aside	679,918	679,918	1,359,836
Offset Credits	-	-	-
Qualifying Expenditures	<u>(679,918)</u>	<u>(679,918)</u>	<u>(1,359,836)</u>
Balance 6/30/02	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Cash Balance Carried Forward to FY 2003	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**Total Restricted Assets** \$ -

**NOTE 18 - CONTRACTUAL COMMITMENTS**

At June 30, 2002, the District had contractual commitments as follows:

<u>Company</u>	<u>Purpose</u>	<u>Amount Remaining On Contract</u>
Performance Site Management	Site Work	\$456,775
DuPont Flooring Services	Flooring	58,851
Allied Environmental Services	Asbestos Abatement	379,258
Keen & Cross, Inc.	Asbestos Abatement	2,088
Central Fire Protection	Fire Protection-E.S.	281,010
Accurate Electric Construction	Electrical Work-New H.H.S.	2,020,832
General Temperature Control	HVAC & Plumbing-New H.H.S.	3,833,860
Vulcan Enterprise, Inc.	Fire Protection-E.S.	154,221
Vaughn Industries, Inc.	Electrical Work-E.S.	1,768,650
Corna/Kokosing Construction	General Trades & Masonry-New H.H.S.	8,879,278
Mosser Construction, Inc.	General Trades-E.S.	6,598,347
Mark Schaffer Excavation	Site Work-New H.H.S. & E.S.	759,650
Carl's Plumbing & Heating	Plumbing-E.S.	527,382
Pete Miller, Inc.	HVAC-E.S.	<u>1,231,645</u>
<b>Total</b>		<u><b>\$26,951,847</b></u>

**NOTE 19 - SUBSEQUENT EVENTS:**

The District entered into various contracts for the building projects with the Ohio School Facilities Commission between July and November 2002 in the following amounts:



**MARION CITY SCHOOL DISTRICT  
MARION COUNTY**

**NOTES TO THE COMBINED FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

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<u>Company</u>	<u>Purpose</u>	<u>Contract Amount</u>
Baldauf Construction Co, Inc.	District Wide Phone Room	\$217,500
Encompass	Technology	907,290
The Spieker Company	General Trades-New M.S.	5,203,000
AMPAM Commerical Midwest	Fire Protection-New M.S.	306,682
Carl's Plumbing & Heating	Plumbing-New M.S.	710,000
Pete Miller, Inc.	HVAC-New M.S.	3,404,131
Accurate Electric Construction	Electrical-New M.S.	1,646,100
Quality Masonry Company, Inc.	Masonry Restoration	269,100
Hickerson Excavating Company	Athletic Fields	164,600
Ludwig Zahn Construction Company	General Trades	971,052
Vulcan Enterprises, Inc.	Fire Protection	124,373
Rhodes heating & Air Conditioning	Plumbing	151,988
Vaughn Industries	HVAC	781,500
Settle Muter Electric	Electrical	<u>679,311</u>
<b>Total</b>		<b><u>\$15,536,627</u></b>

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**MARION CITY SCHOOL DISTRICT  
MARION COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2002**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
<b><u>U.S. DEPARTMENT OF AGRICULTURE</u></b>						
<i>Passed Through Ohio Department of Education:</i>						
Nutrition Cluster:						
Food Distribution Program	N/A	10.550	-	\$120,142	-	\$118,548
National School Breakfast Program	044339-05PU-01/02	10.553	\$117,065	-	\$117,065	-
National School Lunch Program	044339-LLP1-01/02 044339-LLP4-01/02	10.555	665,517	-	665,517	-
Summer Food Service Program for Children	044339-23PU-01/02 044339-24PU-01/02	10.559	92,392	-	92,392	-
Total U.S. Department of Agriculture - Nutrition Cluster			<b>874,974</b>	<b>120,142</b>	<b>874,974</b>	<b>118,548</b>
<b><u>U.S. DEPARTMENT OF EDUCATION</u></b>						
<i>Passed Through Ohio Department of Education:</i>						
Special Education Cluster:						
Special Education Grants to States	044339-6BSF-99/01/02	84.027	576,057	-	700,239	-
Special Education - Preschool Grant	044339-PGS1-01/02	84.173	23,159	-	60,130	-
Total Special Education Cluster			<b>599,216</b>	<b>-</b>	<b>760,369</b>	<b>-</b>
Adult Education - State Grant Programs	044339-ABS1-00/01/02	84.002	56,251	-	115,160	-
Title I Grants to Local Educational Agencies	044339-C1S1-01/02	84.010	1,048,432	-	1,261,407	-
Safe and Drug-Free Schools	044339-DRS1-00/01/02	84.186	32,419	-	45,635	-
Goals 2000 State and Local Educational Systemic Improvement Grant	044339-G2S1-01	84.276	(500)	-	85,297	-
Eisenhower Professional Development	044339-MSS1-01/02	84.281	26,778	-	20,543	-
Innovative Educational Program Strategies	044339-C2S1-00/01/02	84.298	17,583	-	27,919	-
Technology Literacy Challenge Fund	044339-TFV2-00	84.318	64,539	-	64,532	-
Comprehensive School Reform Demonstration	044339-RFS1-00 044339-RFS2-01	84.332	112,841	-	96,978	-
Class Size Reduction	044339-DRS1-02	84.340	184,330	-	219,977	-
Total Department of Education			<b>2,141,889</b>	<b>-</b>	<b>2,697,817</b>	<b>-</b>
<b><u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u></b>						
<i>Passed Through Ohio Department of Mental Retardation and Developmental Disabilities</i>						
Medical Assistance Program	N/A	93.778	183,055	-	183,055	-
<b>Total Federal Awards</b>			<b>\$3,199,918</b>	<b>\$120,142</b>	<b>\$3,755,846</b>	<b>\$118,548</b>

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

**MARION CITY SCHOOL DISTRICT  
MARION COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2002**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B - FOOD DISTRIBUTION**

Nonmonetary assistance, such as food received from the U.S. Department of Agriculture, is reported in the Schedule at the fair market value of the commodities received and consumed. Cash receipts from the U.S. Department of Agriculture are commingled with state grants. It is assumed federal monies are expended first. At June 30, 2002, the District had no significant food commodities in inventory.



STATE OF OHIO  
OFFICE OF THE AUDITOR

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

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

To the Board of Education:

We have audited the general purpose financial statements of the Marion City School District, Marion County, Ohio, (the District) as of and for the year ended June 30, 2002, and have issued our report thereon dated December 17, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the District in a separate letter dated December 17, 2002.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings as item 2002-10651-001.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is a material weakness. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated December 17, 2002.

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

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

A handwritten signature in black ink, appearing to read "Jim Petro". The signature is fluid and cursive, with a large loop at the end.

**JIM PETRO**  
Auditor of State

December 17, 2002



STATE OF OHIO  
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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

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

To the Board of Education:

**Compliance**

We have audited the compliance of the Marion City School District, Marion County, Ohio, (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2002. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2002. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings as items 2002-10651-002 and 2002-10651-003. We noted a certain instance of noncompliance that does not require inclusion in this report that we have reported to management of the District in a separate letter dated December 17, 2002.

### **Internal Control Over Compliance**

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

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the District's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying schedule of findings as items 2002-10651-002 through 2002-10651-005.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above are a material weakness.

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



**JIM PETRO**  
Auditor of State

December 17, 2002



**MARION CITY SCHOOL DISTRICT  
MARION COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 §.505  
JUNE 30, 2002**

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

<b>(d)(1)(i)</b>	<b>Type of Financial Statement Opinion</b>	Unqualified
<b>(d)(1)(ii)</b>	<b>Were there any material control weakness conditions reported at the financial statement level (GAGAS)?</b>	Yes
<b>(d)(1)(ii)</b>	<b>Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(iii)</b>	<b>Was there any reported material non-compliance at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(iv)</b>	<b>Were there any material internal control weakness conditions reported for major federal programs?</b>	No
<b>(d)(1)(iv)</b>	<b>Were there any other reportable internal control weakness conditions reported for major federal programs?</b>	Yes
<b>(d)(1)(v)</b>	<b>Type of Major Programs' Compliance Opinion</b>	Unqualified
<b>(d)(1)(vi)</b>	<b>Are there any reportable findings under § .510?</b>	Yes
<b>(d)(1)(vii)</b>	<b>Major Programs (list):</b>	Nutrition Cluster – CFDA #10.550/ 10.553/ 10.555/ 10.559  Title I Grants to Local Educational Agencies – CFDA #84.010  Special Education Cluster – CFDA #84.027/ 84.173
<b>(d)(1)(viii)</b>	<b>Dollar Threshold: Type A/B Programs</b>	Type A: > \$ 300,000 Type B: all others
<b>(d)(1)(ix)</b>	<b>Low Risk Auditee?</b>	No

**MARION CITY SCHOOL DISTRICT  
MARION COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 §.505  
JUNE 30, 2002  
(Continued)**

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

<b>Finding Number</b>	2002-10651-001
-----------------------	----------------

**Food Service Receipts**

**Material Weakness**

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

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

<b>3. FINDINGS FOR FEDERAL AWARDS</b>
---------------------------------------

**Procurement, Suspension, and Debarment  
Material Noncompliance/ Reportable Condition**

<b>Finding Number</b>	2002-10651-002
<b>CFDA Title and Number</b>	Nutrition Cluster – CFDA #10.550/ 10.553/ 10.555/ 10.559
<b>Federal Award Number / Year</b>	044339-05PU-2001/2002 044339-LLP1-2001/2002, 044339-LLP4-2001/2002 044339-23PU-2001/2002, 044339-24PU-2001/2002
<b>Federal Agency</b>	United States Department of Agriculture
<b>Pass-Through Agency</b>	Ohio Department of Education

7 CFR part 3015 provides that formal competitive bidding must be used for certain transactions which equal or exceed \$100,000. Also, non-federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred. Covered transactions include procurement contracts for goods or services equal to or in excess of \$100,000 and all nonprocurement transactions (e.g. subawards to subrecipients).

**MARION CITY SCHOOL DISTRICT  
MARION COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 §.505  
JUNE 30, 2002  
(Continued)**

**Procurement, Suspension, and Debarment  
Material Noncompliance/ Reportable Condition  
(Continued)**

The District entered into contracts with three vendors for food purchases ranging from approximately \$110,000 to \$197,000; however, the District did not competitively bid these contracts. Also, the District did not obtain suspension and debarment certifications from the vendors for these contracts. For all food service contracts exceeding \$100,000, we recommend the District utilize formal competitive bidding procedures and obtain the required suspension and debarment certifications. Furthermore, we recommend the Food Service Director establish procedures to periodically monitor all food service contracts entered into by the District to ensure that these requirements are met. The District has implemented competitive bidding procedures beginning for fiscal year 2003.

**Commodities Inventory  
Material Noncompliance/Reportable Condition**

<b>Finding Number</b>	2002-10651-003
<b>CFDA Title and Number</b>	Nutrition Cluster – CFDA #10.550/ 10.553/ 10.555/ 10.559
<b>Federal Award Number / Year</b>	044339-05PU-2001/2002 044339-LLP1-2001/2002, 044339-LLP4-2001/2002 044339-23PU-2001/2002, 044339-24PU-2001/2002
<b>Federal Agency</b>	United States Department of Agriculture
<b>Pass-Through Agency</b>	Ohio Department of Education

7 CFR Section 250.16 states accurate and complete records shall be maintained with respect to the receipt and distribution/use of donated foods.

Accurate inventory records were not maintained. The District recorded inventory receipts for amounts ordered rather than amounts actually received, which resulted in overstated inventory receipts of \$1,268 for the days tested (\$7,164 projected). Also, for the first half of the fiscal year, the District overstated commodity receipts and usage by recording receipts when the commodities were received at the central warehouse facility and again when the commodities were transferred to the individual school buildings.

To ensure compliance with reporting requirements, and to ensure proper presentation of commodities on the District's schedule of federal awards receipts and expenditures, we recommend the District maintain accurate records of commodity receipts, usage, and balances.

**MARION CITY SCHOOL DISTRICT  
MARION COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 §.505  
JUNE 30, 2002  
(Continued)**

**Free/Reduced Lunch Reporting  
Reportable Condition**

<b>Finding Number</b>	2002-10651-004
<b>CFDA Title and Number</b>	Nutrition Cluster – CFDA #10.550/ 10.553/ 10.555/ 10.559
<b>Federal Award Number / Year</b>	044339-05PU-2001/2002 044339-LLP1-2001/2002, 044339-LLP4-2001/2002 044339-23PU-2001/2002, 044339-24PU-2001/2002
<b>Federal Agency</b>	United States Department of Agriculture
<b>Pass-Through Agency</b>	Ohio Department of Education

To be eligible for federal lunch reimbursements, the District is required to maintain accurate records and report the number of free and reduced price lunches served each day. Free and reduced price lunches reported for reimbursement varied from those actually served according to the tally sheets. For the days tested, the District under-reported free meals served by 15 and over-reported reduced price meals served by 11. Based on these errors, it is projected the District may have lost approximately \$1,200 in total for the fiscal year due to reporting errors.

We recommend the District maintain complete and accurate records of the number of free and reduced price lunches served and report for reimbursement those free and reduced price lunches actually served. For schools utilizing cash registers the cash register tape with separate free and reduced lunch categories is sufficient evidence of the number of lunches served. For schools utilizing tally sheets, a roster of individual students to whom free or reduced price lunches were served should be maintained to support the number of lunches reported for reimbursements. Furthermore, the food service coordinator or head cook at each building should review the daily CN-7 report to ensure the amounts reported agree to the register tape/tally sheets. Periodically, free and reduced lunches served per the CN-7 should be compared for reasonableness to the number of approved free and reduced lunch applications.

**Title VI-B Special Education Grant Reporting  
Reportable Condition**

<b>Finding Number</b>	2002-10651-005
<b>CFDA Title and Number</b>	Special Education Cluster – CFDA #84.027/ 84.173
<b>Federal Award Number / Year</b>	044339-6BSF-2001/2002
<b>Federal Agency</b>	United States Department of Education
<b>Pass-Through Agency</b>	Ohio Department of Education

Grant coordinators complete grant cash request forms and grant final expenditure reports. The Treasurer, however, does not compare the amounts on the reports to the accounting ledgers to ensure the accuracy of the reports before the forms are signed and submitted. Failure to reconcile the grant reports back to the accounting ledgers resulted in a \$132 overstatement of expenditures on the final expenditure report for the fiscal year 2001 grant. Also, expenditures on the project cash request forms were overstated by \$5,285 (9/28/01 request), \$29,749 (3/21/02 request), and \$2,490 (6/21/02 request). Furthermore, in testing the project cash request forms and final expenditure report, it was noted that on certain of the forms the signature of the Treasurer was signed by someone other than the Treasurer.

**MARION CITY SCHOOL DISTRICT  
MARION COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 §.505  
JUNE 30, 2002  
(Continued)**

**Title VI-B Special Education Grant Reporting  
Reportable Condition  
(Continued)**

We recommend the District establish a policy whereby project cash request forms and final expenditure reports for all grants must be submitted to the Treasurer for approval prior to submission to the grantor/pass-through agency. We recommend the Treasurer reconcile all grant reports to the accounting ledgers and sign the reports to certify the accuracy of the amounts reported. We also recommend the District contact the Ohio Department of Education to determine whether the \$132 of unexpended cash needs to be returned.

**MARION CITY SCHOOL DISTRICT  
MARION COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS  
OMB CIRCULAR A -133 §.315 (b)  
JUNE 30, 2002**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No <u>Longer Valid</u> ; <b><i>Explain:</i></b>
2001-10651-002	Over-reporting of free/ reduced price lunches.	No	The District under-reported lunches served for fiscal year 2002. A reportable condition has been included recommending the head cook or food service coordinator review daily CN-7 reports to ensure accuracy of meals reported for reimbursement.
2001-10651-003	The District did not competitively bid food service contracts, nor did it obtain suspension and debarment certifications from vendors.	No	Not corrected; the finding has been included in the current audit.
2001-10651-004	Inaccurate records of commodity receipts, usage, balances.	No	Partially corrected; effective January 2002, the District is no longer double-booking inventory receipts and usage by recording receipts when received at the central storage facility and again when transferred to the schools. However, the District is recording commodity receipts as the amounts ordered rather than the amounts actually received. A finding has been included in the current audit.
2001-10651-005	Inaccurate grant reporting.	No	Not corrected; the finding has been included in the current audit.



STATE OF OHIO  
OFFICE OF THE AUDITOR  

---

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Facsimile 614-466-4490

**MARION CITY SCHOOL DISTRICT**

**MARION COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
FEBRUARY 6, 2003**