



**Auditor of State  
Betty Montgomery**



**MARION LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

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## Auditor of State Betty Montgomery

### INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of Marion Local School District, Mercer County, (the District), as of and for the years ended June 30, 2003 and 2002. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As discussed in Note 2, the accompanying financial statements and notes have been prepared on a basis of accounting in accordance with standards established by the Auditor of State for governmental entities that are not required to file annual reports in accordance with generally accepted accounting principles. This basis of accounting is a comprehensive basis of accounting other than generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined cash, investments, and combined fund cash balances of the District, as of June 30, 2003 and 2002, and its combined cash receipts and disbursements and its combined budgeted and actual receipts and budgeted and actual disbursements and encumbrances, for the year then ended on the basis of accounting described in Note 2.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 29, 2004, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Marion Local School District  
Mercer County  
Independent Accountant's Report  
Page 2

This report is intended solely for the information and use of management, Board of Education, and other officials authorized to receive this report under Section 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

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

**Betty Montgomery**  
Auditor of State

January 29, 2004

**MARION LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,  
AND CHANGES IN FUND BALANCES  
ALL GOVERNMENTAL FUND TYPES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

	<b>Governmental Fund Types</b>				<b>Totals (Memorandum Only)</b>
	<b>General</b>	<b>Special Revenue</b>	<b>Debt Service</b>	<b>Capital Projects</b>	
<b>Revenues:</b>					
Taxes	\$1,609,952	\$27,392	\$326,746	\$59,976	\$2,024,066
Tuition	56,710				56,710
Transportation Fees	13,289				13,289
Intergovernmental	4,339,162	182,297	39,049	19,315	4,579,823
Interest	54,363	1,073		7,792	63,228
Extracurricular Activities		302,938			302,938
Miscellaneous	15,145	4,319			19,464
<b>Total Revenues</b>	<b>6,088,621</b>	<b>518,019</b>	<b>365,795</b>	<b>87,083</b>	<b>7,059,518</b>
<b>Expenditures:</b>					
Current:					
Instruction:					
Regular	3,573,956	70,602		45,342	3,689,900
Special	535,870	121,469			657,339
Vocational	149,445				149,445
Other	17,453				17,453
Support Services:					
Pupils	182,051	2,334			184,385
Instruction	248,675	11,420			260,095
Board of Education	23,295				23,295
Administration	522,006	15,783			537,789
Fiscal	177,491		6,765	1,973	186,229
Business	2,205				2,205
Operation and Maintenance	470,379	3,847			474,226
Transportation	194,402				194,402
Central Services	805	114			919
Extracurricular Activities	148,317	156,749			305,066
Capital Outlay	346,821	229,952		1,014,770	1,591,543
Debt Payments			371,736		371,736
<b>Total Expenditures</b>	<b>6,593,171</b>	<b>612,270</b>	<b>378,501</b>	<b>1,062,085</b>	<b>8,646,027</b>
(Deficiency) of Revenues					
(Under) Expenditures	(504,550)	(94,251)	(12,706)	(975,002)	(1,586,509)
<b>Other Financing Sources (Uses):</b>					
Refund of Prior year Expenditures		4		1,000	1,004
Refund of Prior Year Receipts	(4)				(4)
Operating Transfers In	263,878				263,878
Operating Transfers Out	(263,878)				(263,878)
<b>Total Other Financing Sources (Uses)</b>	<b>(4)</b>	<b>4</b>		<b>1,000</b>	<b>1,000</b>
(Deficiency) of Revenues and Other Sources					
(Under) Expenditures and Other Uses	(504,554)	(94,247)	(12,706)	(974,002)	(1,585,509)
Fund Balances, July 1, 2002	2,211,433	432,859	189,966	1,259,848	4,094,106
Fund Balances, June 30, 2003	<u>\$1,706,879</u>	<u>\$338,612</u>	<u>\$177,260</u>	<u>\$285,846</u>	<u>\$2,508,597</u>
Reserved for Encumbrances, June 30, 2003	<u>\$134,792</u>	<u>\$15,575</u>	<u>\$0</u>	<u>\$14,929</u>	<u>\$165,296</u>

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

**MARION LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS,  
DISBURSEMENTS AND CHANGES IN FUND BALANCES  
PROPRIETARY FUND TYPE AND SIMILAR FIDUCIARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

	<u>Proprietary Fund Type</u>	<u>Fiduciary Funds</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Agency</u>	
<b>Operating Revenues:</b>			
Food Services	\$225,264		\$225,264
Extracurricular Activities		135,051	135,051
Classroom Materials & Fees	43,904		43,904
Total Operating Revenue	<u>269,168</u>	<u>135,051</u>	<u>404,219</u>
<b>Operating Expenses:</b>			
Salaries	99,184		99,184
Fringe Benefits	33,383		33,383
Purchased Services	5,273		5,273
Materials and Supplies	154,184		154,184
Capital Outlay	4,555		4,555
Other Objects		118,864	118,864
Total Operating Expenses	<u>296,579</u>	<u>118,864</u>	<u>415,443</u>
Operating Income (Loss)	<u>(27,411)</u>	<u>16,187</u>	<u>(11,224)</u>
<b>Non-Operating Revenues:</b>			
Miscellaneous	3,500		3,500
Interest	1,897		1,897
Federal and State Subsidies	40,019		40,019
Total Non-Operating Revenues	<u>45,416</u>		<u>45,416</u>
Net Income	18,005	16,187	34,192
Fund Balance, July 1, 2002	<u>136,760</u>	<u>65,489</u>	<u>202,249</u>
<b>Fund Balance, June 30, 2003</b>	<u><u>\$154,765</u></u>	<u><u>\$81,676</u></u>	<u><u>\$236,441</u></u>
Reserved for Encumbrances, June 30, 2003	<u><u>\$5,467</u></u>	<u><u>\$683</u></u>	<u><u>\$6,150</u></u>

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



**MARION LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**COMBINED STATEMENT OF RECEIPTS-BUDGET AND ACTUAL  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

Fund Types/Fund	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable/ (Unfavorable)</u>
<b>Governmental:</b>			
General Fund	\$6,349,026	\$6,352,499	\$3,473
Special Revenue Funds	445,859	518,023	72,164
Debt Service Funds	328,260	365,795	37,535
Capital Project Funds	72,461	88,083	15,622
<b>Proprietary:</b>			
Enterprise Funds	<u>278,500</u>	<u>314,584</u>	<u>36,084</u>
Total (Memorandum Only)	<u><u>\$7,474,106</u></u>	<u><u>\$7,638,984</u></u>	<u><u>\$164,878</u></u>

*The notes to the financial statements are an integral part of this statement.*

**MARION LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**COMBINED STATEMENT OF DISBURSEMENTS AND  
ENCUMBRANCES COMPARED WITH EXPENDITURE AUTHORITY  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

<b>Fund Types/Fund</b>	<b>Prior Year Carryover Appropriations</b>	<b>2003 Appropriations</b>	<b>Total</b>
<b>Governmental:</b>			
General Fund	\$208,853	\$7,666,488	\$7,875,341
Special Revenue Funds	6,267	708,827	715,094
Debt Service Funds	0	382,000	382,000
Capital Project Funds	586,791	514,887	1,101,678
<b>Proprietary:</b>			
Enterprise Funds	3,420	342,875	346,295
Total (Memorandum Only)	<u>\$805,331</u>	<u>\$9,615,077</u>	<u>\$10,420,408</u>

*The notes to the financial statements are an integral part of this statement.*

<b>Actual 2003 Disbursements</b>	<b>Encumbrances Outstanding At 6/30/03</b>	<b>Total</b>	<b>Variance Favorable/ (Unfavorable)</b>
\$6,857,053	\$134,792	\$6,991,845	\$883,496
612,270	15,575	627,845	87,249
378,501	0	378,501	3,499
1,062,085	14,929	1,077,014	24,664
<u>296,579</u>	<u>5,467</u>	<u>302,046</u>	<u>44,249</u>
<u><u>\$9,206,488</u></u>	<u><u>\$170,763</u></u>	<u><u>\$9,377,251</u></u>	<u><u>\$1,043,157</u></u>

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**MARION LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,  
AND CHANGES IN FUND BALANCES  
ALL GOVERNMENTAL FUND TYPES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

	<u>Governmental Fund Types</u>				<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	
<b>Revenues:</b>					
Taxes	\$1,582,475	\$26,954	\$300,297	\$53,259	\$1,962,985
Tuition	4,465				4,465
Transportation Fees	9,543				9,543
Intergovernmental	4,207,530	171,162	35,043	664,641	5,078,376
Interest	104,519	1,254		66,697	172,470
Extracurricular Activities		238,420			238,420
Miscellaneous	15,469	28,101			43,570
<b>Total Revenues</b>	<b>5,924,001</b>	<b>465,891</b>	<b>335,340</b>	<b>784,597</b>	<b>7,509,829</b>
<b>Expenditures:</b>					
Current:					
Instruction:					
Regular	3,173,322	19,116		34,340	3,226,778
Special	485,973	104,228			590,201
Vocational	135,636				135,636
Support Services:					
Pupils	170,381	5,726			176,107
Instruction	212,192	17,220			229,412
Board of Education	24,708				24,708
Administration	495,354	18,189			513,543
Fiscal	193,845		6,091	1,941	201,877
Business	2,477				2,477
Operation and Maintenance	425,764				425,764
Transportation	244,458				244,458
Central Services	119,273	37			119,310
Non-Instructional Services					
Extracurricular Activities	134,693	192,983			327,676
Capital Outlay	199,567	4,533		5,330,248	5,534,348
Debt Payments			368,139		368,139
<b>Total Expenditures</b>	<b>6,017,643</b>	<b>362,032</b>	<b>374,230</b>	<b>5,366,529</b>	<b>12,120,434</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(93,642)	103,859	(38,890)	(4,581,932)	(4,610,605)
<b>Other Financing Sources (Uses):</b>					
Refund of Prior year Expenditures	10,150				10,150
Operating Transfers In	236,905	122,043			358,948
Operating Transfers Out	(358,948)				(358,948)
Advances In	16,704				16,704
Advances Out		(16,704)			(16,704)
<b>Total Other Financing Sources (Uses)</b>	<b>(95,189)</b>	<b>105,339</b>			<b>10,150</b>
Excess (Deficiency) of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(188,831)	209,198	(38,890)	(4,581,932)	(4,600,455)
Fund Balances, July 1, 2001 (Restated)	2,400,264	223,661	228,856	5,841,780	8,694,561
Fund Balances, June 30, 2002	<u>\$2,211,433</u>	<u>\$432,859</u>	<u>\$189,966</u>	<u>\$1,259,848</u>	<u>\$4,094,106</u>
Reserved for Encumbrances, June 30, 2002	<u>\$208,853</u>	<u>\$6,268</u>	<u>\$0</u>	<u>\$586,791</u>	<u>\$801,912</u>

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

**MARION LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS,  
DISBURSEMENTS AND CHANGES IN FUND BALANCES  
PROPRIETARY FUND TYPE AND SIMILAR FIDUCIARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

	<u>Proprietary Fund Type</u>	<u>Fiduciary Funds</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Agency</u>	
<b>Operating Revenues:</b>			
Food Services	\$226,636		\$226,636
Extracurricular Activities		110,536	110,536
Classroom Materials & Fees	41,631		41,631
Total Operating Revenue	<u>268,267</u>	<u>110,536</u>	<u>378,803</u>
<b>Operating Expenses:</b>			
Salaries	87,824		87,824
Fringe Benefits	31,237		31,237
Purchased Services	4,151		4,151
Materials and Supplies	160,531		160,531
Capital Outlay	811		811
Other Objects		98,011	98,011
Total Operating Expenses	<u>284,554</u>	<u>98,011</u>	<u>382,565</u>
Operating Income (Loss)	<u>(16,287)</u>	<u>12,525</u>	<u>(3,762)</u>
<b>Non-Operating Revenues:</b>			
Interest	2,386		2,386
Federal and State Subsidies	31,127		31,127
Total Non-Operating Revenues	<u>33,513</u>		<u>33,513</u>
Net Income	17,226	12,525	29,751
Fund Balance, July 1, 2001 (Restated)	<u>119,534</u>	<u>52,964</u>	<u>172,498</u>
<b>Fund Balance, June 30, 2002</b>	<u><u>\$136,760</u></u>	<u><u>\$65,489</u></u>	<u><u>\$202,249</u></u>
Reserved for Encumbrances, June 30, 2002	<u><u>\$3,420</u></u>	<u><u>\$235</u></u>	<u><u>\$3,655</u></u>

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

**MARION LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**COMBINED STATEMENT OF RECEIPTS - BUDGET AND ACTUAL  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

Fund Types/Fund	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable/ (Unfavorable)</u>
<b>Governmental:</b>			
General Fund	\$6,173,416	\$6,187,760	\$14,344
Special Revenue Funds	354,698	587,934	233,236
Debt Service Funds	331,169	335,340	4,171
Capital Project Funds	1,288,322	784,597	(503,725)
<b>Proprietary:</b>			
Enterprise Funds	<u>265,000</u>	<u>301,780</u>	<u>36,780</u>
Total (Memorandum Only)	<u><u>\$8,412,605</u></u>	<u><u>\$8,197,411</u></u>	<u><u>(\$215,194)</u></u>

*The notes to the financial statements are an integral part of this statement.*

**MARION LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**COMBINED STATEMENT OF DISBURSEMENTS AND  
ENCUMBRANCES COMPARED WITH EXPENDITURE AUTHORITY  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

<b>Fund Types/Fund</b>	<b>Prior Year Carryover Appropriations</b>	<b>2002 Appropriations</b>	<b>Total</b>
<b>Governmental:</b>			
General Fund	\$35,355	\$7,627,248	\$7,662,603
Special Revenue Funds	1,926	411,506	413,432
Debt Service Funds	0	380,000	380,000
Capital Project Funds	2,365,027	4,145,283	6,510,310
<b>Proprietary:</b>			
Enterprise Funds	2,729	343,120	345,849
Total (Memorandum Only)	<u>\$2,405,037</u>	<u>\$12,907,157</u>	<u>\$15,312,194</u>

*The notes to the financial statements are an integral part of this statement.*



<u>Actual 2002 Disbursements</u>	<u>Encumbrances Outstanding At 6/30/02</u>	<u>Total</u>	<u>Variance Favorable/ (Unfavorable)</u>
\$6,376,591	\$208,853	\$6,585,444	\$1,077,159
378,736	6,268	385,004	28,428
374,230	0	374,230	5,770
5,366,529	586,791	5,953,320	556,990
<u>284,554</u>	<u>3,420</u>	<u>287,974</u>	<u>57,875</u>
<u><u>\$12,780,640</u></u>	<u><u>\$805,332</u></u>	<u><u>\$13,585,972</u></u>	<u><u>\$1,726,222</u></u>

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**MARION LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2003 AND 2002**

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**1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY**

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

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

**Reporting Entity**

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

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organizations' resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of or provide financial support to the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt, or the levying of taxes. There are no component units of the Marion Local School District.

The School District participates in four jointly governed organizations and three insurance pools. These organizations are the Northwest Ohio Area Computer Services Cooperative, the Mercer County Local Professional Development Committee, the West Central Regional Professional Development Center, the West Central Ohio Special Education Regional Resource Center, the NOACSC Workers' Compensation Group Rating Plan, the Ohio School Plan, and the Mercer Auglaize Employee Benefit Trust. These organizations are presented in Notes 11 and 12 to the general purpose financial statements.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Basis of Accounting**

Although required by Ohio Administrative Code Section 117-2-03 (B) to prepare its annual financial report in accordance with generally accepted accounting principles, the School District chooses to prepare its financial statements on the basis of accounting formerly prescribed or permitted for school districts by the Auditor of State. This comprehensive basis of accounting is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

**MARION LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2003 AND 2002**

---

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**A. Basis of Accounting (Continued)**

These statements include adequate disclosure of material matters, as formerly prescribed or permitted for school districts by the Auditor of State.

**B. Fund Accounting**

The School District maintains its accounting records in accordance with the principles of "fund" accounting. Fund accounting is a concept developed to meet the needs of governmental entities in which legal or other restraints require the recording of specific receipts and disbursements. The transactions of each fund are reflected in a self-balancing group of accounts, an accounting entity which stands separate from the activities reported in other funds. The restrictions associated with each class of funds are as follows:

**Governmental Fund Types**

***General Fund***

The General Fund is the operating fund of the School 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 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 obligation principal, interest, and related costs.

***Capital Projects Funds***

Capital projects funds are 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).

**Proprietary Fund Type**

Proprietary funds are used to account for the School District's ongoing activities which are similar to those found in the private sector. The following is the School District's proprietary fund type:

***Enterprise Funds***

Enterprise funds are used to account for activities that are financed and operated in a manner similar to private business enterprises where the intent 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 where it has been 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.

**MARION LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2003 AND 2002**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**B. Fund Accounting (Continued)**

**Fiduciary Fund Types**

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

**C. Budgetary Process**

**1. Tax Budget**

A budget of estimated cash receipts and disbursements is submitted to the County Auditor, as Secretary of the County Budget Commission, by January 20 of each year, for the period July 1 to June 30 of the following fiscal year.

**2. Estimated Resources**

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

**3. Appropriations**

A temporary appropriation measure to control cash disbursements may be passed on or about July 1 of each year for the period July 1 to September 30. An annual appropriation measure must be passed by October 1 of each year for the period July 1 to June 30. The appropriation measure may be amended or supplemented during the year as new information becomes available. Appropriations may not exceed estimated resources.

**4. Encumbrances**

The School District is required to use the encumbrance method of accounting by virtue of Ohio law. Under this system, purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve the portion of the applicable appropriation. At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding fiscal year and need not be reappropriated.

**MARION LOCAL SCHOOL DISTRICT  
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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2003 AND 2002**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Cash and Investments**

To improve cash management, all cash received by the School District Treasurer is pooled. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is maintained through School District accounting records.

Investments are stated at cost which approximates market value. Investment earnings are allocated as authorized by State statute based upon School District policy.

**E. Unpaid Vacation and Sick Leave**

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

**F. Property, Plant and Equipment**

Fixed assets acquired or constructed for general governmental service are recorded as expenditures. Depreciation is not recorded for these fixed assets.

**G. Total Columns on Financial Statements**

Total columns on the financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. This data is not comparable to a consolidation. Interfund-type eliminations have not been made in the aggregation of this data.

**3. CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCES**

For fiscal year 2003 and 2002, the District changed its method of accounting for financial reporting from accounting principles generally accepted in the United States of America to a basis of accounting formerly prescribed or permitted for school districts by the Auditor of State. This comprehensive basis of accounting is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. This change had the following effect on fund balances as previously reported:

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Project</u>	<u>Enterprise</u>
Fund Balance / Retained Earnings, June 30, 2001	\$ 1,796,739	\$217,292	\$235,209	\$4,459,903	\$151,006
Accrual adjustments	<u>603,525</u>	<u>6,369</u>	<u>(6,353)</u>	<u>1,381,877</u>	<u>(31,472)</u>
Restated Fund Balance, July 1, 2001	<u>\$2,400,264</u>	<u>\$223,661</u>	<u>\$228,856</u>	<u>\$5,841,780</u>	<u>\$119,534</u>

**MARION LOCAL SCHOOL DISTRICT  
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**NOTES TO THE FINANCIAL STATEMENTS  
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**4. DEPOSITS AND INVESTMENTS**

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

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

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

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

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 monies deposited with the institution.

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;

**MARION LOCAL SCHOOL DISTRICT  
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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2003 AND 2002**

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**4. DEPOSITS AND INVESTMENTS (Continued)**

6. The State Treasurer's investment pool (STAR Ohio).
7. Certain banker's acceptances and commercial paper notes for a period not to exceed one hundred eighty days from the date of purchase in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time.
8. Under certain circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

As of June 30, 2003 and 2002, the School District had \$22,470 and \$873, respectively, in undeposited cash on hand which is included in the fund balance.

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

At June 30, 2003, the carrying amount of the School District's deposits was \$1,687,961 and the bank balance was \$1,800,108. Of the bank balance, \$398,312 was covered by federal depository insurance and \$1,401,796 was uninsured and uncollateralized. At June 30, 2002, the carrying amount of the School District's deposits was \$1,765,324 and the bank balance was \$1,966,169. Of the bank balance, \$500,000 was covered by federal depository insurance and \$1,466,169 was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

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

Funds invested by the District are held in the State Treasurer's Investment Pool (Star Ohio), with a carrying value and market value of \$1,034,607 at June 30, 2003 and carrying value and market value of \$2,530,158 at June 30, 2002. The District's investments in STAR Ohio, an investment pool operated by the Ohio State Treasurer, are unclassified investments since they are not evidenced by securities that exist in physical or book entry form.



**MARION LOCAL SCHOOL DISTRICT  
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**NOTES TO THE FINANCIAL STATEMENTS  
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**5. PROPERTY TAXES**

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

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

Public utility property tax revenues received in calendar year 2003 represent the collection of calendar year 2002 taxes. Public utility real and tangible personal property taxes received in calendar year 2003 became a lien on December 31, 2001, were levied after April 1, 2002, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

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

The School District receives property taxes from Auglaize, Darke, and Mercer Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the counties by June 30, 2003, are available to finance fiscal year 2003 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

**MARION LOCAL SCHOOL DISTRICT  
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**NOTES TO THE FINANCIAL STATEMENTS  
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**5. PROPERTY TAXES (Continued)**

The assessed values upon which fiscal year 2003 taxes were collected are:

	2002 Second - Half Collections		2003 First - Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$56,187,050	92.46%	\$57,273,920	92.61%
Public Utility	2,214,310	3.64	2,071,560	3.35
Tangible Personal	2,367,812	3.90	2,501,240	4.04
<b>Total Assessed Value</b>	<b>\$60,769,172</b>	<b>100.00%</b>	<b>\$61,846,720</b>	<b>100.00%</b>
Tax rate per \$1,000 of assessed valuation	\$36.71		\$37.65	

**6. RISK MANAGEMENT**

**A. Commercial Insurance**

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2003, the School District contracted for the following insurance coverage:

Coverage provided by Mid-American Fire and Casualty Company is as follows:

Buildings and Contents – replacement cost	\$18,810,000
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Coverage provided by Ohio School Plan is as follows:

General Liability	
Per Occurrence	1,000,000
Aggregate	3,000,000

Coverage provided by Auto-Owners Insurance is as follows:

Automobile Liability	1,000,000
Uninsured Motorists	1,000,000

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

**MARION LOCAL SCHOOL DISTRICT  
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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2003 AND 2002**

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**6. RISK MANAGEMENT (Continued)**

**B. Insurance Purchasing Pool**

For fiscal year 2003, the School District participated in the NOACSC Workers' Compensation Group Rating Plan (Plan), an insurance purchasing pool. The Plan is intended to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the Plan. The workers' compensation experience of the participating members is calculated as one experience and a common premium rate is applied to all members in the Plan. Each member pays its workers' compensation premiums to the State based on the rate for the Plan rather than its individual rate. Participation in the Plan is limited to members that can meet the Plan's selection criteria. The members apply for participation each year. The firm of Acordia Workers' Compensation Services provides administrative, cost control, and actuarial services to the Plan. Each year, the School District pays an enrollment fee to the Plan to cover the costs of administering the program.

For fiscal year 2003, the School District participated in the Ohio School Plan (Plan), an insurance purchasing pool. Each participant enters into an individual agreement with the Plan for insurance coverage and pays annual premiums to the Plan based on the types and limits of coverage and deductibles selected by the participant.

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

**7. DEFINED BENEFIT PENSION PLANS**

**A. State Teachers Retirement System**

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

**MARION LOCAL SCHOOL DISTRICT  
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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2003 AND 2002**

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**7. DEFINED BENEFIT PENSION PLANS (Continued)**

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

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

For the fiscal year ended June 30, 2003, plan members were required to contribute 9.3 percent of their annual covered salary and the School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For the fiscal year ended June 30, 2002, the portion used to fund pension obligations was 9.5 percent. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers.

The School District's required contribution for pension obligations for the DBP for the fiscal years ended June 30, 2003, 2002, and 2001 was \$424,474, \$290,681, and \$275,624, respectively; 84 percent has been contributed for fiscal year 2003 and 100 percent has been contributed for fiscal years 2002 and 2001.

**B. School Employees Retirement System**

The School District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan administered by the School Employees Retirement Board. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

**MARION LOCAL SCHOOL DISTRICT  
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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2003 AND 2002**

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**7. DEFINED BENEFIT PENSION PLANS (Continued)**

**B. School Employees Retirement System (Continued)**

For the fiscal year ended June 30, 2003, plan members were required to contribute 9 percent of their annual covered salary and the School District was required to contribute an actuarially determined rate. The rate for fiscal year 2003 was 14 percent of annual covered payroll; 8.17 percent was the portion used to fund pension obligations. For the fiscal year ended June 30, 2002, the portion used to fund pension obligations was 5.46 percent. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The School District's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$53,159, \$32,819, and \$23,133, respectively; 50 percent has been contributed for fiscal year 2003 and 100 percent has been contributed for fiscal years 2002 and 2001.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the State Teachers Retirement System or the School Employees Retirement System have an option to choose Social Security or the State Teachers Retirement System/School Employees Retirement System. As of June 30, 2003, all of the Board of Education members have elected Social Security. The Board's liability is 6.2 percent of wages paid.

**8. POST EMPLOYMENT BENEFITS**

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

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year 2003, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the fiscal year ended June 30, 2002, the portion used to fund health care was 4.5 percent. For the School District, this amount was \$32,892 during the 2003 fiscal year and \$137,691 during fiscal year 2002.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$3,011 million at June 30, 2002 (the latest information available). For the fiscal year ended June 30, 2002, net health care costs paid by STRS were \$354,697,000, and STRS had 105,300 eligible benefit recipients.

**MARION LOCAL SCHOOL DISTRICT  
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**8. POST EMPLOYMENT BENEFITS (Continued)**

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

For the fiscal year ended June 30, 2002, 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 was established at \$12,400. For the School District, the amount to fund health care benefits, including the surcharge, was \$66,126 for fiscal year 2002.

For the fiscal year ended June 30, 2003, employer contributions to fund health care benefits were 5.83 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 2003, the minimum pay was established at \$14,500. For the School District, the amount to fund health care benefits, including the surcharge, was \$50,947 for fiscal year 2003.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2002 (the latest information available), were \$182,946,777, and the target level was \$274.4 million. At June 30, 2002, SERS had net assets available for payment of health care benefits of \$335.2 million. SERS has approximately 50,000 participants currently receiving health care benefits.

**9. LONG-TERM OBLIGATIONS**

The changes in the School District's long-term obligations during fiscal year 2003 were as follows:

	Interest Rates	Balance at 6/30/02	Additions	Reductions	Balance at 6/30/03
<u>General Long-Term Obligations</u>					
General Obligation Bonds					
2000 School Improvement					
Serial and Term Bonds	4.4 - 5.75%	\$1,185,000	\$0	\$40,000	\$1,145,000
Capital Appreciation Bonds	12.20%	99,827	5,317	0	105,144
1997 Construction					
Serial and Term Bonds	3.4 - 5.37%	2,525,000	0	105,000	2,420,000
1993 Asbestos Removal Loan	0.00%	92,257	0	10,994	81,263
Total General Obligation Debt		<u>\$3,902,084</u>	<u>\$5,317</u>	<u>\$155,994</u>	<u>\$3,751,407</u>

**MARION LOCAL SCHOOL DISTRICT  
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**NOTES TO THE FINANCIAL STATEMENTS  
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**9. LONG-TERM OBLIGATIONS (Continued)**

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

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

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

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

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

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

The capital appreciation bonds will mature in fiscal years 2011 through 2013 and are not subject to redemption prior to maturity. The maturity amount of the bonds is \$180,000. For fiscal year 2003, \$5,317 was accreted for total bond value of \$105,144.

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

**MARION LOCAL SCHOOL DISTRICT  
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**NOTES TO THE FINANCIAL STATEMENTS  
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**9. LONG-TERM OBLIGATIONS (Continued)**

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

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

The School District's overall debt margin was \$2,145,332 with an unvoted debt margin of \$61,847 at June 30, 2003.

Principal and interest requirements to retire general obligation debt outstanding at June 30, 2003, were as follows:

Fiscal Year Ending June 30,	Serial and Term Bonds	Capital Appreciation Bonds	1997 General Obligation Bonds	1993 Asbestos Removal Loan	Interest	Total
2004	\$45,000	\$0	\$120,000	\$10,994	\$204,506	\$380,500
2005	45,000	0	135,000	10,994	195,731	386,725
2006	50,000	0	150,000	10,994	185,781	396,775
2007	50,000	0	80,000	10,994	157,281	298,275
2008	50,000	0	105,000	10,994	149,296	315,290
2009 - 2013	175,000	93,181	630,000	26,293	843,470	1,767,944
2014 - 2018	360,000	11,963	810,000	0	414,981	1,596,944
2019 - 2021	370,000	0	390,000	0	65,375	825,375
	<u>\$1,145,000</u>	<u>\$105,144</u>	<u>\$2,420,000</u>	<u>\$81,263</u>	<u>\$2,216,421</u>	<u>\$5,967,828</u>

**10. SET ASIDE REQUIREMENTS**

The School District is required by State statute to annually set aside in the general fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by year-end or offset by similarly restricted resources received during the year must be held in cash at year-end and carried forward to be used for the same purposes in future years. Effective April 10, 2001, S.B. No. 345 eliminated the requirement that districts establish and maintain a budget stabilization reserve. The Act provided requirements for the disposition of any budget reserve balance that may have existed at April 10, 2001.



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**NOTES TO THE FINANCIAL STATEMENTS  
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**10. SET ASIDE REQUIREMENTS (Continued)**

The following cash basis information identifies the changes in the fund balance reserves for textbooks and capital improvements during fiscal year 2002 and 2003.

	Textbooks	Capital Improvements	Budget Stabilization
Balance June 30, 2001	\$87,076	\$75,381	\$16,607
Current Year Set Aside Requirement	118,453	118,453	0
Current Year Offsets	0	(91,116)	0
Qualifying Expenditures	(112,307)	(102,718)	(16,607)
Set Aside Reserve Balance June 30, 2002	<u>\$93,222</u>	<u>\$0</u>	<u>\$0</u>

	Textbooks	Capital Improvements
Balance June 30, 2002	\$93,222	\$0
Current Year Set Aside Requirement	131,939	131,939
Qualifying Expenditures	(62,569)	(131,939)
Set Aside Reserve Balance June 30, 2003	<u>\$162,592</u>	<u>\$0</u>

The textbooks and instructional materials set-aside expenditures in excess of the set-aside requirements may be carried forward to offset future years set-aside requirements. The District transferred the restricted portion of the Budget Reserve by the end of fiscal year 2002 to a Bus Purchase reserve fund and subsequently purchased the buses (in accordance with restrictions set by Senate Bill 345), therefore the Budget Stabilization Reserve account no longer applies. The Restricted General Fund Balance represents unspent monies of the required set aside. The District had funds designated in excess of the required set aside for the Textbook and Instructional Materials Reserve fund of \$2,456 as of June 30, 2003 and \$2,155 as of June 30, 2003. The District also had funds designated in excess of the required set aside for the Capital Maintenance Reserve fund of \$78,373 as of June 30, 2003 and \$214,951 as of June 30, 2003.

**11. JOINTLY GOVERNED ORGANIZATIONS**

**A. Northwest Ohio Area Computer Services Cooperative**

The School District is a participant in the Northwest Ohio Area Computer Services Cooperative (NOACSC), which is a computer consortium. NOACSC is an association of public school districts within the boundaries of Allen, Hancock, Mercer, Paulding, Putnam, and Van Wert Counties, and the Cities of St. Marys and Wapakoneta. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of NOACSC consists of two representatives from each county elected by majority vote of all charter member school districts within each county. During fiscal year 2003, the School District paid \$7,763 to NOACSC for various services. Financial information can be obtained from Michael Wildermuth, who serves as Director, 645 South Main Street, Lima, Ohio 45804.

**MARION LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2003 AND 2002**

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**11. JOINTLY GOVERNED ORGANIZATIONS (Continued)**

**B. Mercer County Local Professional Development Committee**

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

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

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

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

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

The West Central Ohio Special Education Regional Resource Center (SERRC) is a jointly governed organization formed to initiate, expand, and improve special education programs and services for children with disabilities and their parents. The SERRC is governed by a fifty-two member board consisting of the superintendent from the fifty participating school districts, one representative from a non-public school, and one representative from Wright State University. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained from Krista Hart, Hardin County Educational Service Center, 1 Court House Square, Suite 50, Kenton, Ohio 43326-2385.

**12. INSURANCE POOLS**

**A. NOACSC Workers' Compensation Group Rating Plan**

The School District participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The NOACSC Workers' Compensation Group Rating Plan (Plan) was established through the Northwest Ohio Area Computer Services Cooperative (NOACSC) as an insurance purchasing pool. The Safety Coordinator of NOACSC, or his designee, serves as coordinator of the Plan. Each year, the participating members pay an enrollment fee to the Plan to cover the costs of administering the program.

**MARION LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2003 AND 2002**

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**12. INSURANCE POOLS (Continued)**

**B. Ohio School Plan**

The School District participates in the Ohio School Plan (Plan), an insurance purchasing pool established under Section 2744.081 of the Ohio Revised Code. The Plan is an unincorporated nonprofit association of its members which enables the participants to provide for a formalized joint insurance purchasing program for maintaining adequate insurance protection and provides risk management programs and other administrative services. The Plan's business and affairs are conducted by a fifteen member board consisting of superintendents, treasurers, the president of Harcum-Hyre Insurance Agency, Inc., and a member of the Hylant Group, Inc. The Hylant Group, Inc. is the Plan's administrator and is responsible for processing claims. Harcum-Hyre Insurance Agency serves as the sales and marketing representative which establishes agreements between the Plan and its members. Financial information can be obtained from Harcum-Hyre Insurance Agency, 246 East Sycamore Street, Columbus, Ohio 43206.

**C. Mercer Auglaize Employee Benefit Trust**

The Mercer Auglaize Employee Benefit Trust (Trust) is a public entity shared risk pool consisting of eleven local school districts and two educational service centers. The Trust is organized as a Voluntary Employee Benefit Association under Section 501(c)(9) of the Internal Revenue Code and provides medical, dental, and vision benefits to the employees of the participants. Each participants superintendent is appointed to an Administrative Committee which advises the Trustee, Sky Bank, concerning aspects of the administration of the Trust.

Each participant decides which plans offered by the Administrative Committee will be extended to its employees. Participation in the Trust is by written application subject to acceptance by the Administrative Committee and payment of the monthly premiums. Financial information can be obtained from Jim Mauntler; J.M. Consulting, 3457 Beechway Boulevard, Toledo, Ohio, 43614.

**13. CONTINGENT LIABILITIES**

**i. Grants**

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2003 or 2002.

**B. Litigation**

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

**MARION LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2003 AND 2002**

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**13. CONTINGENT LIABILITIES (Continued)**

**C. State School Funding Decision**

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

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school funding scheme that is thorough and efficient..."

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

**14. RELATED PARTY TRANSACTIONS**

During fiscal year 2000, the School District hired Garman/Miller & Associates, Inc. as the architectural for the School District's Ohio School Facilities Commission building project. One of the partners in the firm is the brother of one of the School District's Board of Education members. The School District did go through a bidding process, in which each bidder was ranked on a point system, included their bond counsel in the decision making process, and the Board member abstained from the vote. The district also hired Garman/Miller & Associates, Inc. as the architect for the outdoor track project in FY 2002. During fiscal year 2002 and 2003, a total of \$127,265 was paid to the firm for the building project and \$9,812 for the track project, for a total of \$137,077.



**Auditor of State  
Betty Montgomery**

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

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

To the Board of Education:

We have audited the financial statements of Marion Local School District, Mercer County (the District), as of and for the years ended June 30, 2003 and 2002, and have issued our report thereon dated January 29, 2004, wherein we noted that the District implemented the basis of accounting previously prescribed by the Auditor of State for financial reporting rather than generally accepted accounting principles which is now required. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2003-001. We also noted certain immaterial instances of noncompliance that we have reported to management of the District in a separate letter dated January 29, 2004.

**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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted others matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated January 29, 2004.

One First National Plaza / 130 W. Second St. / Suite 2040 / Dayton, OH 45402  
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Marion Local School District  
Mercer 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 Board of Education, management, federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

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

**Betty Montgomery**  
Auditor of State

January 29, 2003

MARION LOCAL SCHOOL DISTRICT  
MERCER COUNTY

SCHEDULE OF FINDINGS

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

**FINDING NUMBER 2003- 001**

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

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

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







**Auditor of State  
Betty Montgomery**

88 East Broad Street  
P.O. Box 1140  
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**MARION LOCAL SCHOOL DISTRICT**

**MERCER COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
MARCH 4, 2004**