

Marion City School District

Marion County

Basic Financial Statements

June 30, 2004



**Auditor of State
Betty Montgomery**

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

We have reviewed the Independent Auditor's Report of the Marion City School District, Marion County, prepared by Kennedy, Cottrell & Associates, LLC, for the audit period July 1, 2003 to June 30, 2004. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

March 11, 2005

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**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

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INDEPENDENT AUDITOR'S REPORT

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

To the Board of Education:

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Marion City School District as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, and the budgetary comparison for the General fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 11, 2005 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.

The Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information the Governmental Accounting Standards Board requires. We applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

We conducted our audit to form opinions on the financial statements that collectively comprise the District's basic financial statements. The federal awards receipts and expenditures schedule is 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 basic financial statements. We subjected the federal awards receipts and expenditures schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly presented in all material respects, in relation to the basic financial statements taken as a whole.

Kennedy, Cottrell + Associates LLC

Kennedy, Cottrell + Associates
February 11, 2005

MARION CITY SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004

Unaudited

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

Financial Highlights

Key financial highlights for 2004 are as follows:

- Net assets of governmental activities increased \$16,381,781 while net assets of business-type activities decreased \$307,385.
- The District had \$65,357,506 in revenues related to governmental activities. General revenues in the form of property taxes and unrestricted grants and entitlements accounted for \$39,355,415, or 60%, of these revenues while program specific revenues in the form of charges for services, grants and contributions accounted for \$26,002,091, or 40%.
- The District had \$48,975,725 in expenses related to government activities; \$26,002,091 of these expenses was offset by program specific charges for services, grants and contributions. The remainder of these expenses were funded with general revenues.
- The District had \$2,179,899 in expenses related to business-type activities; \$1,871,512 of these expenses was offset by program specific charges for services, grants and contributions.
- Capital outlay additions of \$24,320,273 consisted of \$22,541,054 in building construction and improvements, \$1,743,703 in furniture and equipment and \$35,516 in school buses and vehicles.

Using this Annual Financial Report

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

The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds with all other non-major funds presented in total in one column. For Marion City District, the general fund is by far the most significant fund, with the Classroom Facilities Fund being the only other major fund.

MARION CITY SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004

Unaudited

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2004?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets and liabilities* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

In the Statement of Net Assets and the Statement of Activities, the District is divided into two distinct kinds of activities:

- Governmental Activities - Most of the District's programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities.
- Business-Type Activities - These services are provided on a charge for goods or services basis to recover all of the expenses of the goods or services provided. The District's adult and community education programs, food service and uniform school supplies are reported as business-type activities.

Reporting the District's Most Significant Funds

Fund Financial Statements

Fund financial statements provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's major governmental funds are the general fund and the classroom facilities fund.

Governmental Funds

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* that can readily be converted into cash. The governmental fund statements provide a detailed *short-term view* of the District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the financial statements.

MARION CITY SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004

Unaudited

Proprietary Funds

Proprietary funds use the same basis of accounting as business-type activities; therefore, these statements will essentially match.

The District as a Whole

Recall that the Statement of Net Assets provides the perspective of the District as a whole.

Table 1 provides a summary of the District's net assets for 2004 compared to 2003:

| | Table 1 Net Assets | | | | | |
|--------------------------------------------|-------------------------|----------------------|--------------------------|---------------------|----------------------|----------------------|
| | Governmental Activities | | Business-Type Activities | | Total | |
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| Assets | | | | | | |
| Current Assets | \$ 21,899,754 | \$ 51,819,717 | \$ (176,471) | \$ 179,222 | \$ 21,723,283 | \$ 51,998,939 |
| Capital Assets | 92,724,192 | 71,445,008 | 48,686 | 53,097 | 92,772,878 | 71,498,105 |
| Total Assets | 114,623,946 | 123,264,725 | (127,785) | 232,319 | 114,496,161 | 123,497,044 |
| Liabilities | | | | | | |
| Current Liabilities | 16,378,167 | 31,716,436 | 215,598 | 263,216 | 16,593,765 | 31,979,652 |
| Long-Term Liabilities | 18,622,650 | 18,414,348 | 80,881 | 85,982 | 18,703,531 | 18,500,330 |
| Total Liabilities | 35,000,817 | 50,130,784 | 296,479 | 349,198 | 35,297,296 | 50,479,982 |
| Net Assets | | | | | | |
| Invested in Capital Assets, Net of Debt | 77,274,157 | 56,220,135 | 48,686 | 53,097 | 77,322,843 | 56,273,232 |
| Restricted | 3,040,676 | 7,417,184 | - | - | 3,040,676 | 7,417,184 |
| Unrestricted (Deficit) | (691,704) | (395,971) | (472,950) | (169,976) | (1,164,654) | (565,947) |
| Total Net Assets | \$ 79,623,129 | \$ 63,241,348 | \$ (424,264) | \$ (116,879) | \$ 79,198,865 | \$ 63,124,469 |

MARION CITY SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004

Unaudited

Table 2 shows the changes in net assets for fiscal year 2004 compared to fiscal year 2003:

| Table 2 | | | | | | |
|-------------------------------|-------------------------|----------------------|-----------------------|--------------------------|--------------------|--------------------|
| Change in Net Assets | | | | | | |
| | Governmental Activities | | | Business Type Activities | | |
| | 2004 | 2003 | Variance | 2004 | 2003 | Variance |
| Program Revenues: | | | | | | |
| Charges for Services | \$ 1,823,906 | \$ 1,752,477 | \$ 71,429 | \$ 777,116 | \$ 749,907 | \$ 27,209 |
| Operating Grants | 4,597,659 | 3,698,798 | 898,861 | 1,094,396 | 1,158,674 | (64,278) |
| Capital Grants | 19,580,526 | 24,359,332 | (4,778,806) | - | - | - |
| General Revenues: | | | | | | |
| Property Taxes | 11,839,326 | 12,068,043 | (228,717) | - | - | - |
| Grants and Entitlements | 26,965,053 | 27,101,416 | (136,363) | - | - | - |
| Investment Earnings | 473,528 | 293,467 | 180,061 | - | - | - |
| Other | 77,508 | 215,895 | (138,387) | 1,002 | 1,034 | (32) |
| Transfers | - | (97,132) | 97,132 | - | 97,132 | (97,132) |
| Total Revenues | 65,357,506 | 69,392,296 | (4,034,790) | 1,872,514 | 2,006,747 | (134,233) |
| Expenses | | | | | | |
| Program Expenses: | | | | | | |
| Instruction | 30,489,978 | 31,163,729 | 673,751 | - | - | - |
| Support Services: | | | | | | |
| Pupils | 2,227,694 | 1,980,721 | (246,973) | - | - | - |
| Instructional Staff | 2,129,931 | 2,016,423 | (113,508) | - | - | - |
| Board of Education | 140,575 | 171,819 | 31,244 | - | - | - |
| Administration | 3,821,573 | 3,760,847 | (60,726) | - | - | - |
| Fiscal | 573,401 | 673,155 | 99,754 | - | - | - |
| Business | 294,866 | 403,904 | 109,038 | - | - | - |
| Operation of Maint. | 4,117,943 | 3,615,932 | (502,011) | - | - | - |
| Pupil Transportation | 741,723 | 823,686 | 81,963 | - | - | - |
| Central | - | - | - | - | - | - |
| Non-Instructional Services | 586,470 | 388,223 | (198,247) | - | - | - |
| Extracurricular Activities | 720,392 | 673,157 | (47,235) | - | - | - |
| Facilities Construction | 107,094 | - | (107,094) | - | - | - |
| Unallocated Depreciation | 2,189,988 | 70,195 | (2,119,793) | - | - | - |
| Interest and Fiscal Charges | 834,097 | 835,217 | 1,120 | - | - | - |
| Food Service | - | - | - | 2,135,472 | 2,036,866 | (98,606) |
| Uniform School Supplies | - | - | - | 14,015 | 11,173 | (2,842) |
| Adult Education | - | - | - | 30,412 | 53,643 | 23,231 |
| Total Expenses | 48,975,725 | 46,577,008 | (2,398,717) | 2,179,899 | 2,101,682 | (78,217) |
| Decrease in Net Assets | \$ 16,381,781 | \$ 22,815,288 | \$ (1,636,073) | \$ (307,385) | \$ (94,935) | \$ (56,016) |

MARION CITY SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004

Unaudited

Governmental Activities

Net assets of the District's governmental activities increased by \$16,381,781. This increase is primarily the result of capital grants and contributions received during the fiscal year. Capital grants and contributions were used to construct and renovate school buildings. Buildings and building improvements are depreciated over their estimated useful life.

General revenues that related to the District's governmental activities consisted primarily of property taxes and state foundation revenues. During fiscal year 2004, property taxes and grants and entitlements, such as state foundation, represented 60% of the total governmental activities revenue, generating 19% and 41%, respectively.

Real estate property is reappraised every six years. Marion County had its triennial update in calendar year 2003. Although historical growth has had a positive effect on the District's tax base, the full tax revenue impact has not been realized due to H.B. 920. This state law, enacted in 1976, does not allow for revenue increases caused by inflationary growth of real property values. Increases in valuation prompt corresponding annual reductions in the "effective millage", the tax rates applied to real property. Thus, although the District's tax valuation continues to grow, this built-in revenue limitation requires the District to request additional school operating revenue by placing a levy on the ballot every three to five years, on average.

The DeRolph III court case decisions have not eliminated the local dependence on property taxes. This factor continues to be a situation the District has to deal with in providing funding for the program offering of the District.

Instruction costs comprise 62% of governmental program expenses.

The statement of activities shows the cost of program services and the charges for services and grants attributable to those services.

Business-Type Activities

Business-type activities consist of the food service, uniform school supplies, and adult education operations. These programs had revenue of \$1,828,370, \$20,642 and \$22,500 with expenses of \$2,135,472, \$14,015 and \$30,412, respectively.

The District's Funds

The District's major funds are accounted for using the modified accrual basis of accounting. The total revenues for governmental funds were \$65,021,167 and total expenditures were \$70,432,527. The District's expenditures exceeded revenue by \$5,411,360. This fact is a major challenge for the District.

The District's General Fund fund balance decreased by \$1,540,676. The decrease in fund balance can be attributed primarily to the overall increase in salaries and fringe benefits along with revenues not keeping pace with the cost of operations.

MARION CITY SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004

Unaudited

The Classroom Facilities Fund which accounts for the major construction and renovation expenses of new elementary and high school and how the projects were financed is coming to an end. The net fund balance of this major fund is \$1,212,524. Construction next year should eliminate this fund balance.

General Fund Budgeting Highlights

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

During fiscal year 2004, the District amended its general fund budget. Budget revisions are presented to the Board of Education for approval. This year amendments were considered routine.

For the general fund, the final budget basis revenue estimate was \$39,817,932, which was higher than the original revenue estimate of \$39,221,618. Actual revenue on the budget basis was \$39,903,482.

The original expenditures estimate of \$41,274,249 was increased to \$42,683,816. The actual expenditures were \$41,996,525.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2004, the District had \$92.7 million invested in land, buildings, furniture and equipment, and vehicles. The table below shows a comparison of fiscal year 2004 to 2003.

| Capital Assets as of June 30, (Net of Depreciation) | Governmental Type Activities | | Business Type Activities | |
|--------------------------------------------------------|------------------------------|----------------------|--------------------------|------------------|
| | 2004 | 2003 | 2004 | 2003 |
| | Land | \$ 6,610,711 | \$ 6,610,711 | \$ - |
| Construction In Progress | 1,001,441 | 4,390,342 | - | - |
| Buildings and Improvements | 78,747,167 | 55,014,544 | - | - |
| Furniture and Equipment | 5,904,260 | 5,076,974 | 48,686 | 53,097 |
| School Buses and Vehicles | 460,613 | 312,670 | - | - |
| Total Capital Assets | \$ 92,724,192 | \$ 71,405,241 | \$ 48,686 | \$ 53,097 |

MARION CITY SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004

Unaudited

Debt

As of June 30, 2004, the District had \$15,071,110 million in bonds and notes outstanding, \$449,654 due within on year. Other long-term debt is comprised of capital leases and compensated absences. Table 4 summarizes long term debt outstanding.

Table 4
 Outstanding Debt, at Year End
 (In Millions)

| | <u>Governmental Activities 2004</u> | <u>Governmental Activities 2003</u> |
|---------------------------------------|---------------------------------------------|---------------------------------------------|
| General Obligation Bonds: | | |
| 4.4% to 5.36% 2000 School Improvement | \$ 14,635,000 | \$ 14,990,000 |
| Notes Payable: | | |
| Bus Note, 2.75% | 63,889 | 107,513 |
| Athletic Note, 4.2% | 372,221 | - |
| Compensated Absences | 3,443,965 | 3,189,475 |
| Capital Lease Payable | <u>98,529</u> | <u>127,360</u> |
| Total | <u>\$ 18,613,604</u> | <u>\$ 18,414,348</u> |

Restrictions and Other Limitations

The District faces many challenges in the future. As the preceding information shows, the District relies heavily upon grants and entitlements and property taxes. Another challenge facing the District is the future of state funding. The State of Ohio was found by the Ohio Supreme Court in March, 1997 to be operating an unconstitutional educational system, one that was neither "adequate" nor "equitable." Since 1997, the State has directed its tax revenue growth toward school districts with little property tax wealth.

On December 11, 2002, the Ohio Supreme Court issued an opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding plan is unconstitutional. Since then, the Ohio Supreme Court has relinquished jurisdiction over the case and directed the Ohio General Assembly to enact a school-funding plan that is thorough and efficient. The District is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

Due to the unsettled issues in Ohio public school funding, district management is required to plan carefully and prudently to provide the resources to meet student needs in the future.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the District's finances and show the District's accountability for the money it receives. If you have any questions about this report or need financial information, contact Robert Wood, Treasurer of Marion City School District, 910 East Church Street, Marion, Ohio 43302.

**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

**STATEMENT OF NET ASSETS
AS OF JUNE 30, 2004**

| | Primary Government | | | Component Unit |
|-------------------------------------------------|----------------------------|-----------------------------|----------------------|-------------------|
| | Governmental Activities | Business-type Activities | Total | |
| Assets | | | | |
| Equity in Pooled Cash and Cash Equivalents | \$ 7,621,959 | \$ (273,671) | \$ 7,348,288 | \$ 66,378 |
| Cash and Cash Equivalents with Fiscal Agents | 366 | - | 366 | - |
| Receivables: | | | | |
| Taxes | 12,561,514 | - | 12,561,514 | - |
| Accounts | 67,682 | 5,997 | 73,679 | - |
| Intergovernmental | 1,486,596 | - | 1,486,596 | - |
| Prepaid items | 91,261 | - | 91,261 | - |
| Materials and Supplies Inventory | 70,376 | 91,203 | 161,579 | 171 |
| Land | 7,612,152 | - | 7,612,152 | - |
| Capital Assets, Net | 85,112,040 | 48,686 | 85,160,726 | 23,759 |
| Total Assets | <u>114,623,946</u> | <u>(127,785)</u> | <u>114,496,161</u> | <u>90,308</u> |
| Liabilities | | | | |
| Accounts Payable | 235,741 | - | 235,741 | - |
| Contracts Payable | 1,233,702 | - | 1,233,702 | - |
| Accrued Wages and Benefits | 4,299,753 | 153,459 | 4,453,212 | - |
| Retainage Payable | 128 | - | 128 | - |
| Due to Other Governments | 1,015,094 | 62,139 | 1,077,233 | 48,266 |
| Deferred Revenue - Property Taxes | 7,317,841 | - | 7,317,841 | - |
| Deferred Revenue - Intergovernmental | 2,195,527 | - | 2,195,527 | - |
| Accrued Interest | 80,015 | - | 80,015 | - |
| Matured Interest Payable | 366 | - | 366 | - |
| Long-term Liabilities: | | | | |
| Due within one year | 1,163,465 | 8,578 | 1,172,043 | - |
| Due later than one year | 17,459,185 | 72,303 | 17,531,488 | - |
| Total Liabilities | <u>35,000,817</u> | <u>296,479</u> | <u>35,297,296</u> | <u>48,266</u> |
| Net Assets | | | | |
| Invested in Capital Assets, Net of Related Debt | 77,274,157 | 48,686 | 77,322,843 | 23,759 |
| Restricted for: | | | | |
| Debt Service | 843,116 | - | 843,116 | - |
| Capital Projects | 1,498,854 | - | 1,498,854 | - |
| Other purposes | 698,706 | - | 698,706 | - |
| Unrestricted | (691,704) | (472,950) | (1,164,654) | 18,283 |
| Total Net Assets | <u>\$ 79,623,129</u> | <u>\$ (424,264)</u> | <u>\$ 79,198,865</u> | <u>\$ 42,042</u> |

See accompanying notes to the basic financial statements.

MARION CITY SCHOOL DISTRICT
MARION COUNTY

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

| Functions/Programs | Program Revenues | | | | Net (Expense) Revenue and Changes in Net Assets | | | Component Unit Marion CSD Digital Academy |
|----------------------------------------------------------------------------------------|------------------|-------------------------|------------------------------------------|----------------------------------------|----------------------------------------------------|-----------------------------|-----------------|-------------------------------------------------|
| | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Primary Government | | | |
| | | | | | Governmental Activities | Business-Type Activities | Total | |
| Primary government: | | | | | | | | |
| Governmental Activities: | | | | | | | | |
| Instruction: | | | | | | | | |
| Regular | \$ 24,013,102 | \$ 1,326,085 | \$ 1,499,397 | \$ - | \$ (21,187,620) | \$ - | \$ (21,187,620) | \$ - |
| Special | 5,611,407 | 239,282 | 1,912,163 | - | (3,459,962) | - | (3,459,962) | - |
| Vocational | 599,778 | 35,542 | - | - | (564,236) | - | (564,236) | - |
| Adult/Continuing | 99,166 | 1,348 | 54,332 | - | (43,486) | - | (43,486) | - |
| Other | 166,525 | 9,906 | - | - | (156,619) | - | (156,619) | - |
| Pupils | 2,227,694 | 1,982 | 28,137 | - | (2,197,575) | - | (2,197,575) | - |
| Instructional Staff | 2,129,931 | 5,716 | 708,884 | - | (1,415,331) | - | (1,415,331) | - |
| Board of Education | 140,575 | - | - | - | (140,575) | - | (140,575) | - |
| Administration | 3,821,573 | 93,988 | 215,560 | - | (3,512,025) | - | (3,512,025) | - |
| Fiscal | 573,401 | - | 351 | - | (573,050) | - | (573,050) | - |
| Business | 294,866 | - | - | - | (294,866) | - | (294,866) | - |
| Operation and Maintenance | 4,117,943 | - | 14,516 | - | (4,103,427) | - | (4,103,427) | - |
| Pupil Transportation | 741,723 | - | 31,619 | - | (710,104) | - | (710,104) | - |
| Central | - | - | - | - | - | - | - | - |
| Operation of Non-Instructional Services | 586,470 | - | 132,700 | - | (453,770) | - | (453,770) | - |
| Extracurricular Activities | 720,392 | 110,057 | - | - | (610,335) | - | (610,335) | - |
| Facilities Acquisition and Construction Services | 107,094 | - | - | 19,580,526 | 19,473,432 | - | 19,473,432 | - |
| Depreciation Expense (excluding amounts allocated to functions as a direct expense) | 2,189,988 | - | - | - | (2,189,988) | - | (2,189,988) | - |
| Interest and Fiscal Charges | 834,097 | - | - | - | (834,097) | - | (834,097) | - |
| Total Governmental Activities | 48,975,725 | 1,823,906 | 4,597,659 | 19,580,526 | (22,973,634) | - | (22,973,634) | - |
| Business-Type activities: | | | | | | | | |
| Food Service | 2,135,472 | 756,474 | 1,071,896 | - | - | (307,102) | (307,102) | - |
| Uniform School Supplies | 14,015 | 20,642 | - | - | - | 6,627 | 6,627 | - |
| Adult Education | 30,412 | - | 22,500 | - | - | (7,912) | (7,912) | - |
| Total Business-Type Activities | 2,179,899 | 777,116 | 1,094,396 | - | - | (308,387) | (308,387) | - |
| Total Primary Government | 51,155,624 | 2,601,022 | 5,692,055 | 19,580,526 | (22,973,634) | (308,387) | (23,282,021) | - |
| Component Unit: | | | | | | | | |
| Marion CSD Digital Academy | 513,270 | - | 467,012 | - | - | - | - | (46,258) |
| General Revenues: | | | | | | | | |
| Taxes: | | | | | | | | |
| Property Taxes, Levied for General Purposes | | | | | 10,625,627 | - | 10,625,627 | - |
| Property Taxes, Levied for Special Revenue Purposes | | | | | 143,183 | - | 143,183 | - |
| Property Taxes, Levied for Debt Service | | | | | 1,070,516 | - | 1,070,516 | - |
| Grants and Entitlements not Restricted to Specific Purposes | | | | | 26,965,053 | - | 26,965,053 | - |
| Unrestricted Investment Earnings | | | | | 473,528 | - | 473,528 | 495 |
| Gain on Disposal of Capital Assets | | | | | 30,524 | - | 30,524 | - |
| Miscellaneous | | | | | 46,984 | 1,002 | 39,308,431 | - |
| Total General Revenues | | | | | 39,355,415 | 1,002 | 39,356,417 | 495 |
| Change in Net Assets | | | | | 16,381,781 | (307,385) | 16,074,396 | (45,763) |
| Net Assets - July 1, 2003 (Restated - See Note 3) | | | | | 63,241,348 | (116,879) | 63,124,469 | 87805 |
| Net Assets - June 30, 2004 | | | | | \$ 79,623,129 | \$ (424,264) | \$ 79,198,865 | \$ 42,042 |

See accompanying notes to the basic financial statements.

**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004**

| | General Fund | Classroom Facilities Fund | Other Governmental Funds | Total Governmental Funds |
|-------------------------------------------------|----------------------|---------------------------------|--------------------------------|--------------------------------|
| Assets: | | | | |
| Equity in Pooled Cash and Cash Equivalents | \$ 906,605 | \$ 4,641,881 | \$ 1,516,496 | \$ 7,064,982 |
| Cash and Cash Equivalents with Fiscal Agents | - | - | 366 | 366 |
| Receivables: | | | | |
| Taxes | 11,238,469 | - | 1,323,045 | 12,561,514 |
| Accounts | 53,333 | - | 14,349 | 67,682 |
| Intergovernmental | 103,209 | - | 1,383,387 | 1,486,596 |
| Prepaid items | 91,261 | - | - | 91,261 |
| Materials and Supplies Inventory | 70,376 | - | - | 70,376 |
| Restricted Assets: | | | | |
| Equity in Pooled Cash and Cash Equivalents | 556,977 | - | - | 556,977 |
| Total Assets | <u>\$ 13,020,230</u> | <u>\$ 4,641,881</u> | <u>\$ 4,237,643</u> | <u>\$ 21,899,754</u> |
| Liabilities: | | | | |
| Accounts Payable | 195,418 | - | 40,323 | 235,741 |
| Contracts Payable | - | 1,233,702 | - | 1,233,702 |
| Accrued Wages and Benefits | 3,928,128 | - | 371,625 | 4,299,753 |
| Compensated Absences Payable | 278,166 | - | - | 278,166 |
| Retainage Payable | - | 128 | - | 128 |
| Due to Other Governments | 666,105 | - | 34,815 | 700,920 |
| Deferred Revenue - Property Taxes | 7,624,879 | - | 885,234 | 8,510,113 |
| Deferred Revenue - Intergovernmental | - | 2,195,527 | 1,077,128 | 3,272,655 |
| Matured Interest Payable | - | - | 366 | 366 |
| Total Liabilities | <u>12,692,696</u> | <u>3,429,357</u> | <u>2,409,491</u> | <u>18,531,544</u> |
| Fund Balances: | | | | |
| Reserved for: | | | | |
| Encumbrances | 525,232 | 195,244 | 170,185 | 890,661 |
| Inventory | 70,376 | - | - | 70,376 |
| Taxes Unappropriated | 3,613,590 | - | 437,811 | 4,051,401 |
| Textbooks | 556,977 | - | - | 556,977 |
| Unreserved, Reported in: | | | | |
| General Fund | (4,438,641) | - | - | (4,438,641) |
| Special Revenue Funds | - | - | 530,071 | 530,071 |
| Debt Service Fund | - | - | 455,912 | 455,912 |
| Capital Project Funds | - | 1,017,280 | 231,137 | 1,248,417 |
| Permanent Fund | - | - | 3,036 | 3,036 |
| Total Fund Balances | <u>327,534</u> | <u>1,212,524</u> | <u>1,828,152</u> | <u>3,368,210</u> |
| Total Liabilities and Fund Balances | <u>\$ 13,020,230</u> | <u>\$ 4,641,881</u> | <u>\$ 4,237,643</u> | <u>\$ 21,899,754</u> |

See accompanying notes to the basic financial statements.

**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2004**

| | | |
|----------------------------------|----|-----------|
| Total Governmental Fund Balances | \$ | 3,368,210 |
|----------------------------------|----|-----------|

Amounts reported for governmental activities in the statement of net assets are different because:

| | | |
|-------------------------------------------------------------------------------------------------------------------------|--|------------|
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. | | 92,724,192 |
|-------------------------------------------------------------------------------------------------------------------------|--|------------|

Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.

| | | | |
|--|-------------------|------------------|-----------|
| | Property Taxes | 1,192,272 | |
| | Intergovernmental | <u>1,077,128</u> | 2,269,400 |

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

| | | | |
|--|------------------------------|-----------------|---------------------|
| | Compensated Absences Payable | (3,174,845) | |
| | Capital Leases Payable | (98,529) | |
| | General Obligation Debt | (15,071,110) | |
| | Due to Other Governments | (314,174) | |
| | Accrued Interest Payable | <u>(80,015)</u> | <u>(18,738,673)</u> |

| | | |
|---------------------------------------|----|--------------------------|
| Net Assets of Governmental Activities | \$ | <u><u>79,623,129</u></u> |
|---------------------------------------|----|--------------------------|

See accompanying notes to the basic financial statements.

**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

| | General Fund | Classroom Facilities Fund | Other Governmental Funds | Total Governmental Funds |
|--------------------------------------------------------------------------|-------------------|---------------------------------|--------------------------------|--------------------------------|
| Revenues: | | | | |
| Taxes | \$ 10,691,807 | \$ - | \$ 1,221,258 | \$ 11,913,065 |
| Intergovernmental | 26,836,158 | 19,458,976 | 4,313,545 | 50,608,679 |
| Investment Income | 239,304 | 389,213 | 16 | 628,533 |
| Tuition | 1,565,669 | - | - | 1,565,669 |
| Extracurricular Activities | - | - | 106,551 | 106,551 |
| Classroom Materials and Fees | 45,757 | - | 313 | 46,070 |
| Miscellaneous | 46,984 | 735 | 104,881 | 152,600 |
| Total Revenues | 39,425,679 | 19,848,924 | 5,746,564 | 65,021,167 |
| Expenditures: | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 22,224,315 | 3,367 | 1,307,016 | 23,534,698 |
| Special | 4,022,344 | - | 1,692,455 | 5,714,799 |
| Vocational | 597,467 | - | - | 597,467 |
| Adult/Continuing | 22,669 | - | 68,721 | 91,390 |
| Other | 166,525 | - | - | 166,525 |
| Support services: | | | | |
| Pupils | 1,956,566 | - | 22,678 | 1,979,244 |
| Instructional staff | 1,354,841 | - | 706,414 | 2,061,255 |
| Board of Education | 137,099 | - | - | 137,099 |
| Administration | 3,503,446 | - | 292,083 | 3,795,529 |
| Fiscal | 582,648 | - | 26,657 | 609,305 |
| Business | 372,962 | - | - | 372,962 |
| Operation and Maintenance of Plant | 3,932,812 | - | 128,139 | 4,060,951 |
| Pupil Transportation | 608,678 | - | 31,646 | 640,324 |
| Non-instructional Services | 508,364 | - | 121,059 | 629,423 |
| Extracurricular Activities | 530,497 | - | 178,253 | 708,750 |
| Facilities Acquisition and Construction Services | 344,708 | 23,087,502 | 620,253 | 24,052,463 |
| Debt service: | | | | |
| Principal Retirement | 102,149 | - | 355,000 | 457,149 |
| Interest and Fiscal Charges | 8,483 | - | 814,711 | 823,194 |
| Total Expenditures | 40,976,573 | 23,090,869 | 6,365,085 | 70,432,527 |
| Deficiency of Revenues Under Expenditures | (1,550,894) | (3,241,945) | (618,521) | (5,411,360) |
| Other Financing Sources (Uses): | | | | |
| Proceeds from Notes | - | - | 372,221 | 372,221 |
| Proceeds from the Sale of Fixed Assets | 21,478 | - | - | 21,478 |
| Proceeds from Inception of Capital Lease | 38,740 | - | - | 38,740 |
| Loss on Investments | - | (154,442) | - | (154,442) |
| Operating Transfers In | - | - | 50,000 | 50,000 |
| Operating Transfers Out | (50,000) | - | - | (50,000) |
| Total Other Financing Sources (Uses) | 10,218 | (154,442) | 422,221 | 277,997 |
| Deficiency of Revenues and Other Financing Sources Under Expenditures | (1,540,676) | (3,396,387) | (196,300) | (5,133,363) |
| Fund Balance at Beginning of Year (Restated - See Note 3) | 2,084,141 | 4,608,911 | 2,024,452 | 8,717,504 |
| Decrease in Inventory | (215,931) | - | - | (215,931) |
| Fund Balance at End of Year | \$ 327,534 | \$ 1,212,524 | \$ 1,828,152 | \$ 3,368,210 |

See accompanying notes to the basic financial statements.

**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

**RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2004**

Net Change in Fund Balances - Total Governmental Funds \$ (5,133,363)

*Amounts reported for governmental activities in the
statement of activities are different because:*

Governmental funds report capital outlays as expenditures.
However, in the statement of activities, the cost of those assets
is allocated over their estimated useful lives as depreciation
expense.

| | | | |
|--|-----------------|--------------------|------------|
| | Capital Outlays | 24,320,273 | |
| | Depreciation | <u>(3,040,526)</u> | 21,279,747 |

The effect of various miscellaneous transactions involving capital assets
(i.e. sales, trade-ins, and disposals) is to decrease net assets. (30,257)

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

| | | | |
|--|----------------|----------------|---------|
| | Property Taxes | (73,739) | |
| | Grants | <u>534,559</u> | 460,820 |

Repayment of general obligation debt and capital lease principal is an
expenditure in the governmental funds, but the repayment reduces
long-term liabilities in the statement of net assets and does not result
in an expense in the statement of activities.

| | | | |
|--|-------------------------|---------------|---------|
| | General Obligation Debt | 398,624 | |
| | Capital Leases | <u>58,525</u> | 457,149 |

Note Proceeds provide current financial resources to governmental
funds, but issuing debt increases long-term liabilities in the
statement of net assets. (372,221)

In the statement of activities, interest is accrued on on outstanding
bonds, whereas in governmental funds, an interest expenditure is
reported when due. (10,903)

Some expenses reported in the statement of activities, such as
compensated absences payable and other accounts payable, do
not require the use of current financial resources and therefore
are not reported as expenditures in governmental funds.

| | | | |
|--|--------------------------|-----------------|------------------|
| | Change in Inventory | (215,931) | |
| | Compensated Absences | 14,629 | |
| | Due to Other Governments | <u>(67,889)</u> | <u>(269,191)</u> |

Change in Net Assets of Governmental Activities \$ 16,381,781

See accompanying notes to the basic financial statements.

**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - BUDGET (NON-GAAP BASIS) AND ACTUAL
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

| | Original Budget | Final Budget | Actual | Variance Over/(Under) |
|--------------------------------------------------|--------------------|-------------------|-------------------|--------------------------|
| Revenues | | | | |
| Taxes | \$ 10,565,733 | \$ 10,711,695 | \$ 10,711,695 | \$ - |
| Investment Income | 290,000 | 222,900 | 239,304 | 16,404 |
| Tuition and Fees | 343,500 | 1,563,876 | 1,565,986 | 2,110 |
| Transportation Fees | 71,669 | 32,170 | 32,170 | - |
| Intergovernmental Revenue | 27,550,466 | 26,828,270 | 26,834,405 | 6,135 |
| Miscellaneous | 400,250 | 41,755 | 44,669 | 2,914 |
| Total Revenues | <u>39,221,618</u> | <u>39,400,666</u> | <u>39,428,229</u> | <u>27,563</u> |
| Expenditures | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 21,685,265 | 22,840,065 | 22,872,773 | (32,708) |
| Special | 4,129,800 | 4,005,100 | 4,073,265 | (68,165) |
| Vocational | 545,382 | 531,201 | 516,987 | 14,214 |
| Adult/Continuing | 17,167 | 22,000 | 23,029 | (1,029) |
| Other | 270,439 | 180,438 | 212,056 | (31,618) |
| Support Services: | | | | |
| Pupils | 1,991,171 | 1,979,995 | 1,991,862 | (11,867) |
| Instructional Staff | 1,337,195 | 1,410,454 | 1,345,230 | 65,224 |
| Board of Education | 172,524 | 172,524 | 140,263 | 32,261 |
| Administration | 3,644,745 | 3,611,778 | 3,511,168 | 100,610 |
| Fiscal | 639,054 | 639,054 | 585,703 | 53,351 |
| Business | 432,857 | 436,590 | 379,517 | 57,073 |
| Operation and Maintenance of Plant | 4,962,916 | 4,867,322 | 4,274,316 | 593,006 |
| Pupil Transportation | 543,096 | 608,159 | 615,032 | (6,873) |
| Non-Instructional Services | 308,664 | 508,363 | 508,364 | (1) |
| Extracurricular Activities | 469,902 | 531,479 | 529,828 | 1,651 |
| Facilities Acquisition and Construction Services | 28,038 | 243,260 | 321,098 | (77,838) |
| Debt Service: | | | | |
| Principal Payments | 46,034 | 46,034 | 46,034 | - |
| Total Expenditures | <u>41,224,249</u> | <u>42,633,816</u> | <u>41,946,525</u> | <u>(119,306)</u> |
| Deficiency of Revenues | | | | |
| Under Expenditures | (2,002,631) | (3,233,150) | (2,518,296) | 146,869 |
| Other Financing Sources/(Uses) | | | | |
| Refund of Prior Year Expenditures | - | 73,847 | 131,834 | 57,987 |
| Sale and Loss of Assets | - | 21,478 | 21,478 | - |
| Operating Transfers Out | (50,000) | (50,000) | (50,000) | - |
| Advance In | - | 321,941 | 321,941 | - |
| Total Other Financing Sources (Uses) | <u>(50,000)</u> | <u>367,266</u> | <u>425,253</u> | <u>57,987</u> |
| Net Change in Fund Balance | (2,052,631) | (2,865,884) | (2,093,043) | 204,856 |
| Fund Balances at Beginning of Year | 2,183,041 | 2,183,041 | 2,183,041 | - |
| Prior Year Encumbrances Appropriated | 682,843 | 682,843 | 682,843 | - |
| Fund Balances at End of Year | <u>\$ 813,253</u> | <u>\$ -</u> | <u>\$ 772,841</u> | <u>\$ 204,856</u> |

See accompanying notes to the basic financial statements.

**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

**STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
AS OF JUNE 30, 2003**

| | Business-Type Activities |
|-------------------------------------------------|-----------------------------|
| Assets | |
| Pooled cash and cash equivalents | \$ (273,671) |
| Receivables: | |
| Accounts | 5,997 |
| Materials and Supplies Inventory | 91,203 |
| Total Current Assets | (176,471) |
| | |
| Capital Assets, Net | 48,686 |
| Total Assets | (127,785) |
| | |
| Liabilities | |
| Accrued Wages and Benefits | 153,459 |
| Due to Other Governments | 62,139 |
| Compensated Absences Payable | 8,578 |
| Total Current Liabilities | 224,176 |
| | |
| Long-Term Liabilities: | |
| Compensated Absences | 72,303 |
| Total Liabilities | 296,479 |
| | |
| Net Assets | |
| Invested in Capital Assets, Net of Related Debt | 48,686 |
| Unrestricted | (472,950) |
| Total Net Assets | \$ (424,264) |

See accompanying notes to the basic financial statements.

**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

| | Business-Type Activities |
|-----------------------------------------|-----------------------------|
| Operating Revenues | |
| Food Services | \$ 756,474 |
| Classroom Fees | 20,642 |
| Total Operating Revenues | 777,116 |
| Operating Expenses | |
| Salaries | 799,181 |
| Fringe Benefits | 427,865 |
| Purchased Services | 156,407 |
| Materials and Supplies | 785,715 |
| Depreciation | 10,731 |
| Total Operating Expenses | 2,179,899 |
| Operating Loss | (1,402,783) |
| Nonoperating Revenues (Expenses) | |
| Federal Donated Commodities | 207,872 |
| Operating Grants | 886,524 |
| Other Non-Operating Income | 1,002 |
| Total Non-Operating Revenues | 1,095,398 |
| Change in Net Assets | (307,385) |
| Net Assets at Beginning of Year | (116,879) |
| Net Assets at End of Year | \$ (424,264) |

See accompanying notes to the basic financial statements.

**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

| | Business-Type Activities |
|--------------------------------------------------------------------------------------------|-----------------------------|
| Cash Flows from Operating Activities | |
| Cash Received from Customers | \$ 775,137 |
| Cash Payments to Suppliers for Goods and Services | (749,585) |
| Cash Payments to Employees for Services | (771,225) |
| Cash Payments for Employee Benefits | (492,880) |
| Net Cash Provided from Operating Activities | (1,238,553) |
| Cash Flows from Noncapital Financing Activities | |
| Operating Grants Received | 883,686 |
| Payback of Short-Term Loans from Other Funds | (131,282) |
| Net Cash Flows from Noncapital Financing Activities | 752,404 |
| Cash Flows from Capital and Related Financing Activities | |
| Payments for Capital Acquisitions | (6,320) |
| Net Cash Flows from Capital and Related Financing Activities | (6,320) |
| Cash Flows from Investing Activities | |
| Cash Received from Interest | 1,002 |
| Net cash flows from Investing Activities | 1,002 |
| Net Change in Cash and Cash Equivalents | (491,467) |
| Cash and Cash Equivalents at Beginning of Year | 217,796 |
| Cash and Cash Equivalents at End of Year | \$ (273,671) |
| Reconciliation of Operating Income to Net Cash Flows from Operating Activities: | |
| Operating Loss | \$ (1,402,783) |
| Adjustments | |
| Net Cash from Operating Activities: | |
| Depreciation | 10,731 |
| Donated Commodities Revenue | 207,872 |
| Operating Grants | 2,838 |
| (Increase)/Decrease in Assets: | |
| Accounts Receivable | (4,907) |
| Materials and Supplies Inventory | 415 |
| Increase/(Decrease) in Liabilities | |
| Accounts Payable | (15,660) |
| Accrued Wages and Benefits | 8,525 |
| Compensated Absences Payable | (5,101) |
| Due to Other Governments | (40,483) |
| Net Cash Flows from Operating Activities | \$ (1,238,553) |

See accompanying notes to the basic financial statements.

**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2004**

| | Private Purpose Trust | Agency |
|--------------------------------------------|--------------------------|-----------|
| Assets | | |
| Equity in Pooled Cash and Cash Equivalents | \$ 109,099 | \$ 68,347 |
| Accounts Receivable | - | 131 |
| Total Assets | 109,099 | 68,478 |
| Liabilities | | |
| Due to Students | - | 68,478 |
| Total Liabilities | - | \$ 68,478 |
| Net Assets | | |
| Restricted for: | | |
| Encumbrances | 1,500 | |
| Scholarships | 93,736 | |
| Unrestricted: | | |
| Held in Trust for Scholarships | 13,863 | |
| Total Net Assets | \$ 109,099 | |

See accompanying notes to the basic financial statements.

**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

| | Private Purpose Trust |
|---------------------------------|--------------------------|
| Additions | |
| Investment Income | \$ 631 |
| Miscellaneous | 1,010 |
| Total Additions | 1,641 |
| Deductions | |
| Other | 6,550 |
| Total Deductions | 6,550 |
| Net Assets at Beginning of Year | 114,008 |
| Net Assets at End of Year | \$ 109,099 |

See accompanying notes to the basic financial statements.

**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004**

NOTE 1 – DESCRIPTION OF THE DISTRICT AND REPORTING ENTITY

The Marion City School District (District) is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The District operates under an elected Board of Education (5 members) elected at-large for staggered four-year terms. The District provides educational services as authorized by state statute and/or federal guidelines.

The 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 serves an area of approximately 8 square miles including all of the City of Marion. The District is the 58th largest in the State of Ohio (among 612 Districts) in terms of enrollment. It currently operates eleven elementary schools, three middle schools, and one comprehensive high school. It is staffed by 205 non-certificated employees, 432 certificated employees, and 35 administrative personnel who provide services to 5,446 students in grades K through 12, 511 adult education students, and various community groups.

Reporting Entity

A reporting entity is comprised of the primary government, component units, and other organizations that are included to insure that the financials are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the District. For the District, this includes general operations, food service, preschool, community services, and student and various community groups.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; (2) the District is legally entitled to or can otherwise access the organization's resources; (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves their budget, the issuance of their debt or the levying of their taxes.

The component unit column on the government-wide financial statements identifies the financial data of the District's discretely presented component unit, Marion City Schools Digital Academy. It is reported separately to emphasize that it is legally separate from the District.

Marion City Schools Digital Academy – Marion City Schools Digital Academy (Academy) is a legally separate not-for-profit served by an appointed six-member Board of Directors. The Academy, under a contractual agreement with the District, provides comprehensive educational programs of high quality, tied to state and national standards, which can be delivered to students in the K-12 population entirely through distance learning technologies. It is operated in cooperation with the District to provide an innovative and cost-effective solution to the special problems of disabled students, students removed from school for disciplinary reasons, students needing advanced or specialized courses, and others, including home-schooled students. The District elects three persons employed and serving in administrator positions within the District, one member who is neither an officer nor employee of the District who is a public educator or other public official representing a governmental entity that desires to further the establishment and operation of the Academy, and one member who is neither an officer nor employee of the District who is a representative initially appointed by the Tri-Rivers Educational Computer Association (TRECA). Therefore, the Academy is reflected as a component unit of the District. The Academy operates on a fiscal year ending June 30.

**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004**

NOTE 1 – DESCRIPTION OF THE DISTRICT AND REPORTING ENTITY (Continued)

Separately issued financial statements can be obtained from Marion City Schools Digital Academy, 910 East Church Street, Marion, OH 43302. Note disclosures for the Academy are reflected in Note 16 of the notes to the basic financial statements.

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. Financial information can be obtained from Lori Cook, Financial Director, 445 East Church Street, Marion, OH 43302 or by calling (740) 387-0498.

Jointly Governed Organization:

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

The District is a member of the Tri-Rivers Educational Computer Association (TRECA), one of over two-dozen such consortiums in the State. TRECA is an association of public Districts within the boundaries of Clark, Cuyahoga, Delaware, Hamilton, Knox, Mahoning, Marion, Morrow, Muskingum, Summit, Trumbull, Union, and Wyandot counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member Districts. The governing board of TRECA consists of one representative from each county elected by majority vote of all charter member Districts within each county, one representative from the city Districts, and the superintendent from Tri-Rivers Joint Vocational School. This consortium was organized as a council-of-governments entity in accordance with Ohio statute. Financial information can be obtained from Mike Carder, who serves as Director, 2222 Marion Mt. Gilead Road, Marion OH 43302

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the 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 also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental and business-type activities and to its proprietary funds provided they do not conflict with or contradict GASB pronouncements. Following are the more significant of the District's accounting policies:

A. Basis of Presentation

Government-wide financial statements

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

**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Fund Financial Statements

During the year, the District segregates transactions related to certain District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the District at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a single column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

B. Fund Accounting

The District uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the District are classified into three categories: governmental, proprietary and fiduciary.

Governmental Funds

Governmental funds focus on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the District's major governmental funds:

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

Classroom Facilities Fund – This capital project fund is used to account for all financial resources related to the construction of the new high, middle and elementary schools. Bonds, notes and grants are used to finance the construction of the District.

**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The other governmental funds of the District account for (a) the accumulation of resources for, and payments of, general long-term principal, interest, and related costs; (b) resources to be used for the acquisition, construction or improvement of capital facilities other than those financed by trust funds and the Classroom Facilities Fund; and (c) for grants and other resources whose use is restricted to a particular purpose.

Proprietary Funds

Proprietary funds focus on the determination of the changes in net assets, financial position and cash flows and are classified as either enterprise or internal service.

The District has no major enterprise funds and no internal service funds.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The District's trust fund is a private-purpose trust, which accounts for a scholarship program for students. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's Agency Fund accounts for numerous student activity programs.

C. Measurement Focus

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and others financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

Like the government-wide statements, all proprietary and fiduciary fund types are accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenues - Exchange and Non-exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal year.

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

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

Deferred Revenue

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Delinquent property taxes and property taxes for which there is an enforceable legal claim as of June 30, 2004, but which were levied to finance fiscal year 2005 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the fiscal year is reported in the operating statement as an expense. Donated commodities are reported as revenue when received.

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

**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process

All funds, other than agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and set annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of control has been established by the Board of Education at the object level within each fund and function.

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

The appropriation resolution is subject to amendment by the Board throughout the year with the restriction that appropriations may not exceed estimated revenues. The amounts reported as the original budgeted amounts reflect the first appropriation for that fund that covered the entire fiscal year, including amounts automatically carried over from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the year.

F. Cash and Investments

To improve cash management, all cash received by the District is pooled in a central bank account. Monies for all funds are maintained in this account or temporarily used to purchase short-term investments. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the balance sheet.

During fiscal year 2004, investments were limited to money market mutual funds, repurchase agreements, and STAR Ohio. Except for investment contracts and money market investments that had a remaining maturity of one year or less at the time of purchase, investments are reported at fair value that is based on quoted market prices. Investment contracts and money market investments that had a maturity of one year or less at the time of purchase are reported at cost or amortized cost.

The District has invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during fiscal year 2004. STAR Ohio is an investment pool managed by the State Treasurer's office that 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 that is the price the investment could be sold for on June 30, 2004.

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 2004 amounted to \$239,304, which includes \$105,732 assigned from other funds.

**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

For presentation on the financial statements, investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an initial maturity of more than three months that are not purchased from the pool are reported as investments.

G. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents that are restricted by state statute. See note 15 for details.

H. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2004, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is reported in the year which services are consumed.

I. Inventories

On government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used.

On the fund financial statements, inventories of governmental funds are stated at cost while inventories of proprietary funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in/first-out (FIFO) basis. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of inventory items is recorded as expenditure in the governmental fund types when purchased. Inventories of proprietary funds consist of donated food, purchased food, and school supplies held for resale and are expensed when used.

J. Bond Discounts, Premiums, and Issuance Costs

When the proceeds from general obligation bonded debt are placed in a governmental type fund, any bond issuance costs are shown as capital outlay expenditures. Any premium or discount is included in "Other Financing Sources - Bond Proceeds" on the Statement of Revenues, Expenditures and Changes in Fund Balance. The long-term debt that appears in the government wide financial statements would always be reported at the bond's face value.

K. Capital Assets

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

**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the fiscal year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$500. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets is not capitalized.

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

| <u>Description</u> | <u>Estimated Lives</u> |
|----------------------------|------------------------|
| Land Improvements | 15 |
| Buildings and Improvements | 25-40 |
| Furniture and Equipment | 5-10 |
| Vehicles | 10 |

L. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental and business-type activities columns of the statement of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

M. 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 Basic Financial Statements
For the Fiscal Year Ended June 30, 2004**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. Accrued Liabilities and Long-Term Obligations

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

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, the noncurrent portion of capital leases, compensated absences, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund statements only to the extent they will be paid with current, expendable, available resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

O. Net Assets

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

The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

P. Fund Balance Reserves

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, material and supply inventories, property taxes, and textbooks in the governmental funds.

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute. The reserve for textbooks represents money required to be set-aside by statute.

Q. Operating Revenues and Expense s

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

**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

R. Interfund Transactions

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

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

S. Estimates

The preparation of the 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.

T. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal 2004.

**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004**

NOTE 3 – RESTATEMENT OF FUND BALANCE/NET ASSETS

Fund Financial Statements

It was found that the District's journal entry to record Classroom Facilities Fund revenues in accordance with Governmental Accounting Standards Board (GASB) Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, in the preceding year was incorrect. This error resulted in the District's June 30, 2003 intergovernmental receivable being overstated by, and deferred revenue being understated by, \$9,892,593 and \$3,802,189, respectively. The effect of these restatements on the Classroom Facilities Fund beginning fund balance is as follows:

| | |
|--------------------------------------------|---------------------|
| Fund Balance - June 30, 2003 | \$ 18,303,693 |
| Intergovernmental Receivable Overstatement | (9,892,593) |
| Deferred Revenue Understatement | <u>(3,802,189)</u> |
| Fund Balance - July 1, 2003 | <u>\$ 4,608,911</u> |

The effect of this correction on current year operations is a \$13,694,782 increase in the excess of revenues and other financing sources over expenditures and other financing uses. The effect of this restatement on operations of previous years was a \$13,694,782 overstatement of the excess of revenues and other financing sources over expenditures and other financing uses.

Entity-wide Financial Statements

The District's incorrect GASB Statement No. 33 journal entry resulted in the District's June 30, 2003 deferred revenue being understated by \$13,694,782, as well as improper revenue recognition totaling \$9,892,593.

The District also understated Long-term Liabilities and Capital Assets at June 30, 2003. The prior period restatement consists primarily of (1) in fiscal year 2003, the District entered into a capital lease agreement for fitness equipment but reported neither the capital asset nor the corresponding capital lease obligation; (2) a significant amount of capital assets recorded by the District have not been assigned a useful life and therefore have not been depreciated over the past several years; and (3) reconciliation variances between amounts reported at June 30, 2003 and fiscal year 2004 beginning balances per the District's capital asset records.

The effect of these restatements on Governmental Activities beginning net asset balance is as follows:

| | |
|------------------------------------|----------------------|
| Net Assets - June 30, 2003 | \$ 86,897,341 |
| Improper Revenue Recognition | (9,892,593) |
| Deferred Revenue Understatement | (13,694,782) |
| Long-term Liability Understatement | (108,385) |
| Capital Asset Understatement | <u>39,767</u> |
| Net Assets - July 1, 2003 | <u>\$ 63,241,348</u> |

The effect of the GASB 33 correction on current year operations is a \$23,587,375 increase in the change in net assets. The effect of the GASB 33 correction on operations of previous years was a \$23,587,375 overstatement of the change in net assets. The effect of the other restatements on both the current and previous years' operations is insignificant.

**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004**

NOTE 4 – COMPLIANCE AND ACCOUNTABILITY

A. Deficit Fund Balance/Retained Earnings

Fund balances/retained earnings at June 30, 2004 included the following individual fund deficits:

| Fund Number | Fund Name | Deficit Balance |
|----------------|-----------------------------------|--------------------|
| 447 | Disadvantaged Pupil Impact Aid | \$ 69,350 |
| 499 | Miscellaneous State Grants | 16,118 |
| 501 | Adult Basic Education | 5,297 |
| 551 | Limited English Migrant Grant | 3,715 |
| 572 | Title I | 213,501 |
| 584 | Drug Free Schools | 1,828 |
| 587 | Early Childhood Special Education | 1,174 |
| 590 | Comprehensive School Reform | 43,089 |
| 006 | Food Service | 495,465 |

The majority of these deficits were the result of the recording of accrued liabilities in accordance with generally accepted accounting principles (GAAP). However, some of these deficits, most notably the food service deficit, were the result of a negative cash balance, which is not permitted by Ohio state law. Management is presently looking for ways to eliminate negative cash balances.

B. Compliance

The General Fund had the following expenditures in excess of appropriations contrary to Section 5705.41 (B), Ohio Revised Code:

| Function | Object | Appropriations | Expenditures | Variance |
|----------------------------------|------------------------|----------------|--------------|----------|
| Regular Instruction | Purchased Services | 3,217,516 | 3,219,638 | (2,122) |
| Regular Instruction | Supplies and Materials | 339,901 | 431,659 | (91,758) |
| Special Instruction | Purchased Services | 92,395 | 160,577 | (68,182) |
| Special Instruction | Supplies and Materials | 20,385 | 24,247 | (3,862) |
| Vocational Instruction | Purchased Services | 2,030 | 2,367 | (337) |
| Adult/Continuing Instruction | Supplies and Materials | 3,317 | 4,346 | (1,029) |
| Other Instruction | Purchased Services | 180,439 | 212,056 | (31,617) |
| Pupils | Purchased Services | 170,898 | 185,113 | (14,215) |
| Pupils | Supplies and Materials | 53,461 | 55,746 | (2,285) |
| Business | Purchased Services | 56,739 | 57,289 | (550) |
| Business | Miscellaneous | 2,400 | 2,735 | (335) |
| Operation and Maintenance | Capital Outlay | 7,749 | 9,973 | (2,224) |
| Pupil Transportation | Supplies and Materials | 45,875 | 64,741 | (18,866) |
| Pupil Transportation | Capital Outlay | 1,500 | 5,500 | (4,000) |
| Bldg. Acq. and Construction | Purchased Services | 30,260 | 34,421 | (4,161) |
| Other Fac. Acq. and Construction | Purchased Services | 12,388 | 86,064 | (73,676) |

**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004**

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING

While the District is 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, disbursements, and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP) and Actual presented for each major governmental fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are that:

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

The following table summarizes the adjustments necessary to reconcile the GAAP and budgetary basis statements for the general fund:

| Net Change in Fund Balance | General |
|------------------------------------------|----------------|
| Budget Basis | \$ (2,093,043) |
| Adjustments: | |
| Revenue Accruals: | |
| Accrued FY2003, Received in Cash FY2004 | (3,737,891) |
| Accrued FY2004, Not Yet Received in Cash | 3,774,081 |
| Expenditure Accruals: | |
| Accrued FY2003, Paid in Cash FY2004 | 5,133,612 |
| Accrued FY2004, Not Yet Paid in Cash | (4,854,400) |
| Encumbrances | 690,740 |
| Other Financial Sources/Uses: | |
| Refunds | (131,834) |
| Advances (Net) | (321,941) |
| GAAP Basis | \$ (1,540,676) |

**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004**

NOTE 6 – DEPOSITS AND INVESTMENTS

Deposits

Statutes require the classification of monies held by the District into three categories:

Active Deposits: those monies required to be kept in a "cash" or "near-cash" status for immediate use by the District. Such monies must by law be maintained either as cash in the District treasury, in depository accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) account, or in money market deposit accounts.

Inactive Deposits: those monies not required for use within the current two year period of designation of depositories. Ohio law permits inactive monies to be deposited or invested as certificates of deposit maturing not later than the end of the current period of designation of depositories, or as savings or deposit accounts, including, but not limited to passbook accounts.

Interim Deposits: 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.

Protection of the 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 or deposited 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 principle and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association and the Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchased agreement must exceed the principal value of the agreements by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in (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 § 135.03 of the Revised Code;
6. The State Treasurer's Investment pool;

**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004**

NOTE 6 – DEPOSITS AND INVESTMENTS (Continued)

7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed 25% of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt instruments 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 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.

At fiscal year end, the District had \$1,295 in undeposited cash on hand which is included on the balance sheet of the 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 repurchase agreements), and Reverse Repurchase Agreements."

Deposits: At fiscal year end, the carrying amount of the School's deposits was \$4,688,456 and the bank balance was \$5,963,324. Of the bank balance:

1. \$393,648 was covered by federal depository insurance.
2. \$5,569,676 was uninsured and uncollateralized as defined by GASB. Although it was secured by collateral held by third party trustees, pursuant to section 135.181 Ohio Revised Code, in collateralized pools securing all public funds on deposit, these securities are not held in the name of the District. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the District to a successful claim by the FDIC.

Collateral is required for demand deposits and certificates of deposit in excess of all deposits 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. Obligations pledged to secure deposits must be delivered to a bank other than the institution in which the deposit is made. Written custodial agreements are required.

Investments: The District's investments are categorized below to give an indication of the level of risk assumed by the District at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered investments which 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 or agent but not in the District's name. The District's investment in STAR Ohio is unclassified because it is not evidenced by securities that exist in physical or book entry form.

**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004**

NOTE 6 – DEPOSITS AND INVESTMENTS (Continued)

| | <u>Not Categorized</u> | <u>Category 2</u> | <u>Fair Value</u> |
|---------------------------|----------------------------|-----------------------|-----------------------|
| Repurchase Agreements | \$ - | \$ 2,036,000 | \$ 2,036,000 |
| Money Market Mutual Funds | - | 691,727 | 691,727 |
| STAR Ohio | <u>108,256</u> | <u>-</u> | <u>108,256</u> |
| Total Investments | <u>\$ 108,256</u> | <u>\$ 2,727,727</u> | <u>\$ 2,835,983</u> |

Reconciliation between the classifications of pooled cash and cash equivalents and investments on the Statement of Net Assets and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

| | <u>Cash and Cash Equivalents/ Deposits</u> | <u>Investments</u> |
|---------------------------|----------------------------------------------------|---------------------|
| GASB Statement 9 | \$ 7,525,734 | \$ - |
| Cash on Hand | (1,295) | - |
| Money Market Mutual Funds | (691,727) | 691,727 |
| Repurchase Agreements | (2,036,000) | 2,036,000 |
| STAR Ohio | <u>(108,256)</u> | <u>108,256</u> |
| GASB Statement 3 | <u>\$ 4,688,456</u> | <u>\$ 2,835,983</u> |

NOTE 7 – PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis, while the District's fiscal year runs from July through June. First-half tax distributions are received by the 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, public utility, and tangible personal (used in business) property located in the District. Real and public utility property tax revenues received in calendar year 2004 represent the collection of calendar year 2003 taxes. Real property taxes for 2004 were levied after April 1, 2003, on the assessed values as of January 1, 2003, 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 real and tangible personal property taxes for 2004 were levied after April 1, 2003, on the assessed values as of December 31, 2003, the lien date. Public utility real property is assessed at 35 percent of true value; tangible personal property is currently assessed at varying percentages of true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004**

NOTE 7 – PROPERTY TAXES (Continued)

Tangible personal property tax revenues received in calendar year 2004 (other than public utility property) represent the collection of calendar year 2004 taxes. Tangible personal property taxes for 2004 were levied after April 1, 2003, on the value as of December 31, 2003. Tangible personal property is currently assessed at 25 percent of true value for capital assets and 24 percent of true value 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 District prior to June 30.

The District receives property taxes from Marion County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the Counties by June 30, 2004, are available to finance fiscal year 2004 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents delinquent taxes outstanding and real property, public utility property, and tangible personal property taxes, which were measurable as of June 30, 2004 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, amounts to be received during the available period are not subject to reasonable estimation at June 30, nor were they levied to finance fiscal year 2004 operations. For the governmental fund financial statements, the receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance was recognized as revenue. On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue while on a modified accrual basis the revenue is deferred.

The amount available as an advance at June 30, 2004, was \$3,613,590 in the General Fund, \$387,204 in the Debt Service Fund and \$50,607 in the Classroom Facilities Maintenance Fund.

The assessed values upon which the fiscal year 2004 taxes were collected are:

| | 2003 Second-Half Collections | | 2004 First-Half Collections | |
|------------------------------------------------|------------------------------|---------|-----------------------------|---------|
| | Amount | Percent | Amount | Percent |
| Agricultural/Residential and Public Utility | \$ 234,268,520 | 63% | \$ 234,627,180 | 64% |
| Commercial & Industrial Real | 65,527,110 | 18% | 68,584,050 | 18% |
| Tangible Public Property | 23,683,490 | 6% | 21,074,060 | 6% |
| Tangible Personal Property | 48,741,881 | 13% | 44,904,580 | 12% |
| Total Assessed Value | \$ 372,221,001 | 100% | \$ 369,189,870 | 100% |
| Tax rate per \$1,000 of assessed valuation | \$49.60 | | \$48.93 | |

**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004**

NOTE 8 – RECEIVABLES

Receivables at June 30, 2004, consisted of taxes, interest, accounts (billings for user charged services), and intergovernmental receivables arising from grants, entitlement and shared revenues. All receivables are considered collectable in full. A summary of the principal items of receivables follows:

| <u>Receivables</u> | <u>Amount</u> |
|------------------------------------------|---------------|
| Governmental Type Activities: | |
| Taxes: | |
| General Fund | \$ 11,238,469 |
| Bond Retirement Fund | 1,168,237 |
| Classroom Facilities Maintenance Fund | 154,808 |
| Total Taxes Receivable | 12,561,514 |
| Accounts: | |
| General Fund | 53,333 |
| Other Governmental Funds | 14,349 |
| Total Accounts Receivable | 67,682 |
| Intergovernmental: | |
| General Fund | 103,209 |
| Other Governmental Funds | 1,383,387 |
| Total Intergovernmental Receivables | 1,486,596 |
| Total Governmental Type Activities | 14,115,792 |
| Business-Type Activities: | |
| Accounts | 5,997 |
| Total Business-Type Activities | 5,997 |
| Fiduciary: | |
| Accounts | 131 |
| Grand Total | \$ 14,121,920 |

**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004**

NOTE 9 – CAPITAL ASSETS

Adjustments to the District's capital asset beginning balance were necessary. Explanation of these adjustments can be found in Note 3. Changes in capital assets during the fiscal year ended June 30, 2004 were as follows:

| <u>Asset Class</u> | <u>Beginning Balance</u> | <u>Prior Period Restate</u> | <u>Restated Beginning Balance</u> | <u>Additions</u> | <u>Deletions</u> | <u>Ending Balance</u> |
|----------------------------------|------------------------------|-------------------------------------|-------------------------------------------|----------------------|------------------|---------------------------|
| <i>Governmental Activities:</i> | | | | | | |
| Capital assets not depreciated: | | | | | | |
| Land | \$ 6,610,711 | \$ - | \$ 6,610,711 | \$ - | \$ - | \$ 6,610,711 |
| Construction in Progress | 4,390,342 | - | 4,390,342 | (3,388,901) | - | 1,001,441 |
| Capital assets depreciated: | | | | | | |
| Buildings and Improvements | 68,003,335 | 511,550 | 68,514,885 | 25,929,955 | - | 94,444,840 |
| Furniture and Equipment | 9,711,594 | 152,787 | 9,864,381 | 1,743,703 | (25,400) | 11,582,684 |
| School Buses and Vehicles | <u>926,282</u> | <u>190,082</u> | <u>1,116,364</u> | <u>35,516</u> | <u>-</u> | <u>1,151,880</u> |
| Total capital assets | <u>89,642,264</u> | <u>854,419</u> | <u>90,496,683</u> | <u>24,320,273</u> | <u>(25,400)</u> | <u>114,791,556</u> |
| Less accumulated depreciation: | | | | | | |
| Buildings and Improvements | (12,988,791) | (750,040) | (13,738,831) | (1,983,679) | - | (15,722,510) |
| Furniture and Equipment | (4,634,620) | (60,702) | (4,695,322) | (983,102) | 24,837 | (5,653,587) |
| School Buses and Vehicles | <u>(613,612)</u> | <u>(3,910)</u> | <u>(617,522)</u> | <u>(73,745)</u> | <u>-</u> | <u>(691,267)</u> |
| Total accumulated depreciation: | <u>(18,237,023)</u> | <u>(814,652)</u> | <u>(19,051,675)</u> | <u>(3,040,526)</u> | <u>24,837</u> | <u>(22,067,364)</u> |
| Total capital assets, net | <u>\$ 71,405,241</u> | <u>\$ 39,767</u> | <u>\$ 71,445,008</u> | <u>\$ 21,279,747</u> | <u>\$ (563)</u> | <u>\$ 92,724,192</u> |
| <i>Business-type Activities:</i> | | | | | | |
| Capital assets depreciated: | | | | | | |
| Furniture and Equipment | <u>\$ 280,941</u> | <u>\$ -</u> | <u>\$ 280,941</u> | <u>\$ 6,320</u> | <u>\$ -</u> | <u>\$ 287,261</u> |
| Less accumulated depreciation | <u>(227,844)</u> | <u>-</u> | <u>(227,844)</u> | <u>(10,731)</u> | <u>-</u> | <u>(238,575)</u> |
| Total capital assets, net | <u>\$ 53,097</u> | <u>\$ -</u> | <u>\$ 53,097</u> | <u>\$ (4,411)</u> | <u>\$ -</u> | <u>\$ 48,686</u> |

**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004**

NOTE 9 – CAPITAL ASSETS (Continued)

*Depreciation expense was charged to governmental functions as follows:

| | |
|-----------------------------------------|--------------------------------|
| Instruction: | |
| Regular | \$ 556,869 |
| Special | 18,169 |
| Vocational | 412 |
| Adult Continueing Education | 7,690 |
| Support Service: | |
| Pupil | 9,079 |
| Instructional Staff | 55,538 |
| Board of Education | 6,587 |
| Administration | 57,230 |
| Fiscal | 5,160 |
| Business | 7,762 |
| Operation and Maintenance of Plant | 37,400 |
| Pupil Transportation | 68,370 |
| Operation of Non-Instructional Services | 4,072 |
| Extracurricular Activities | 16,200 |
| Not Allocated | <u>2,189,988</u> |
| Total Depreciation Expense | <u><u>\$ 3,040,526</u></u> |

NOTE 10 – 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 2004, the District purchased insurance from Nationwide Insurance Company (through the Ohio School Plan).

| | |
|-------------------------------------------|--------------|
| General Aggregate Limit | \$ 3,000,000 |
| Employee Benefit Liability: | |
| Per Occurrence | \$ 1,000,000 |
| Aggregate | \$ 3,000,000 |
| Employer Liability: | |
| Bodily Injury by Accident and Disease | \$ 1,000,000 |
| Educational Legal Liability: | |
| Errors and Ommisions (\$2,500 deductible) | |
| Per Occurrence | \$ 1,000,000 |
| Aggregate | \$ 2,000,000 |

**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004**

NOTE 10 – RISK MANAGEMENT (Continued)

| | |
|----------------------------------------------------|----------------|
| Employer Liability: | |
| Bodily Injury by Accident and Disease | \$ 1,000,000 |
| Educational Legal Liability: | |
| Errors and Omissions (\$2,500 deductible) | |
| Per Occurrence | \$ 1,000,000 |
| Aggregate | \$ 2,000,000 |
| Employment Practices Injury (\$2,500 deductible) | |
| Per Occurrence | \$ 1,000,000 |
| Aggregate | \$ 2,000,000 |
| Excess Liability: | |
| General Liability | \$ 1,000,000 |
| Benefits Liability | \$ 1,000,000 |
| Legal Liability | \$ 1,000,000 |
| Blanket Building and Contents (\$2,500 deductible) | \$ 145,429,966 |
| Auto Coverage and Liability (\$500 deductible) | \$ 3,005,000 |
| Crime Bond (\$500 deductible) | \$ 50,000 |

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

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 Districts to group together to potentially achieve a lower premium rate than they may otherwise be able to acquire as individual employers.

NOTE 11 – 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 defined benefit pension plan. 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, stand alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476 or by calling (614)222-5853.

For the fiscal year ended June 30, 2004, plan members were required to contribute 10 percent of their annual covered salary and the District was required to contribute an actuarially determined rate. The rate for fiscal year 2004 was 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The District's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$419,401, \$329,170, and \$231,295 respectively; 57.4 percent has been contributed for fiscal year 2004, and 100 percent for fiscal years 2003 and 2002. The unpaid contribution for fiscal year 2004 is \$249,072.

**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004**

NOTE 11 – DEFINED BENEFIT PENSION PLANS (Continued)

B. 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 retirement and disability benefits to members and death and survivor benefits to beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

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

A DBP or CP member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the 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, 2004, plan members were required to contribute 10.0 percent of their annual covered salary and the District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers.

The District's required contribution for pension obligations for the fiscal years ended June 30, 2004, 2003, and 2002 were \$3,047,237, \$2,959,226, and \$2,179,614, respectively; 81.9 percent has been contributed for fiscal year 2004 and 100 percent has been contributed for fiscal years 2003 and 2002. The unpaid contribution for fiscal year end 2004 is \$565,016.

**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004**

NOTE 12 – 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). Both systems are funded on a pay-as-you-go basis.

The State Teachers Retirement System of Ohio (STRS Ohio) provides access to health care coverage to retirees who participated in the Defined Benefit or Combined Plans and their dependents. Coverage under the program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare part B premiums. Pursuant to the Revised Code (R.C.) the State Teachers Retirement Board has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium.

The Revised Code of Ohio grants authority to STRS Ohio to provide health care coverage to eligible benefits recipients, spouses and dependents. By Ohio law, health care benefits are not guaranteed and the cost of the coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently 14% of covered payroll. The Retirement Board allocates employer contributions to the Health Care Stabilization Fund from which health care benefits are paid. For fiscal year June 30, 2004, 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, 4.5% of covered payroll was allocated to the fund. The balance in the Fund was \$2.8 billion at June 30, 2003 (the latest information available). For the fiscal year ended June 30, 2003, net health care costs paid by STRS were \$352,301,000 and STRS had 108,294 eligible benefit recipients.

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

After the allocation for basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. At June 30, 2004, the health allocation is 4.91%. 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 2004, the minimum pay was established at \$25,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

Health care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150 percent of annual health care expenses, before premium reduction. Gross expenses for health care at June 30, 2004 were \$223,443,805, and the target level was \$335.2 million. At June 30, 2004, the Retirement System's net assets available for payment of health care benefits were \$300.8 million. The number of benefit recipients currently receiving health benefits is approximately 62,000.

For the District, the amount to fund health care benefits, including the surcharge, equaled \$696,492 for the fiscal year ended June 30, 2004.

**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004**

NOTE 13 – LONG-TERM LIABILITIES

The changes in the District's long-term obligations during the fiscal year consist of the following:

| | Principal Outstanding 06/30/03 | Additions | Reductions | Principal Outstanding 06/30/04 | Amounts Due In One Year |
|--------------------------------------------------------------------------------------------------|--------------------------------------|-------------------|-------------------|--------------------------------------|-------------------------------|
| <u>Governmental Activities</u> | | | | | |
| School Facilities Construction & Improvement Bonds 2000, 4.4 to 5.36% Matures 12/1/2022 | \$ 14,990,000 | \$ - | \$ 355,000 | \$ 14,635,000 | \$ 380,000 |
| Bus Notes 2.75%; Matures 11/15/2005 | 107,513 | - | 43,624 | 63,889 | 44,839 |
| Athletic Note 4.2% Matures 9/10/2019 | - | 372,221 | - | 372,221 | 24,815 |
| Compensated Absences | 3,189,475 | 254,490 | - | 3,443,965 | 704,931 |
| Capital Lease Payable | 127,360 | 38,740 | 67,571 | 98,529 | 65,561 |
| Total Governmental Activities Long-Term Liabilities | <u>\$ 18,414,348</u> | <u>\$ 665,451</u> | <u>\$ 466,195</u> | <u>\$ 18,613,604</u> | <u>\$ 1,220,146</u> |
| <u>Business-Type Activities</u> | | | | | |
| Compensated Absences Payab | <u>\$ 85,982</u> | <u>\$ -</u> | <u>\$ 5,101</u> | <u>80,881</u> | <u>\$ 8,578</u> |
| Total Business Type Activities Long-Term Liabilities | <u>\$ 85,982</u> | <u>\$ -</u> | <u>\$ 5,101</u> | <u>\$ 80,881</u> | <u>\$ 8,578</u> |

Note: The capital lease payable beginning balance has been restated to include a capital lease obligation not recorded in the preceding fiscal year totaling \$108,385.

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 are a general obligation of the District that contains a pledge of the full faith and credit of the District. Payments of principal and interest relating to the general obligation bonds are recorded as expenditures in the Debt Service Fund. The source of payment is derived from a current 3.69 mill bonded debt tax levy. 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 Classroom Facilities Maintenance Fund.

Compensated absences will be paid from the fund from which the employees' salaries are paid. Bus notes and capital leases will be paid from the General Fund.

**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004**

NOTE 13 - LONG-TERM LIABILITIES (Continued)

The annual requirements to amortize the District's general obligation bonds outstanding as of June 30, 2004, including interest are as follows:

| <u>June 30</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|----------------|----------------------|---------------------|----------------------|
| 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 | 540,000 | 742,799 | 1,282,799 |
| 2009 | 565,000 | 716,879 | 1,281,879 |
| 2010-2014 | 3,290,000 | 3,110,713 | 6,400,713 |
| 2015-2019 | 4,410,000 | 1,995,325 | 6,405,325 |
| 2020-2023 | 4,475,000 | 643,399 | 5,118,399 |
| Total | <u>\$ 14,635,000</u> | <u>\$ 9,571,323</u> | <u>\$ 24,206,323</u> |

NOTE 14 – CAPITALIZED LEASES - LESSEE DISCLOSURE

The District has entered into capitalized leases for the acquisition of reproduction equipment and fitness equipment.

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 Statement of Revenues, Expenditures and Changes in Fund Balances for the Governmental Funds. A liability was recorded in the government-wide financial statements for \$98,529. Principal payments in the fiscal year 2004 totaled \$58,525. This amount is reflected as "Debt Service Principal" in the General Fund.

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, 2004:

| <u>Year Ending June 30</u> | <u>Capital Lease Liability</u> |
|-----------------------------------------------|------------------------------------|
| 2005 | \$ 66,481 |
| 2006 | 10,821 |
| 2007 | 9,906 |
| 2008 | 9,906 |
| 2009 | <u>9,080</u> |
| Total Minimum Lease Payments | 106,194 |
| Less: Amount Representing Interest | <u>(7,665)</u> |
| Present Value of Future Minimum Lease Payment | <u>\$ 98,529</u> |

**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004**

NOTE 15 – SET ASIDES

The District is required by State statute to annually set aside, in the General Fund, an amount based on a statutory formula for the purchase of textbooks and other instructional materials, and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at year-end. These amounts must be carried forward and used for the same purposes in future years.

| | Capital Maintenance Reserve | Textbook Reserve |
|-----------------------------------------------|-----------------------------------|---------------------|
| Balance 7/1/03 | \$ (315,994) | \$ 429,485 |
| Current Year Offset | (1,224,346) | - |
| Required Set-Aside | 755,016 | 755,016 |
| Qualifying Expenditures | <u>(435,822)</u> | <u>(627,524)</u> |
| Balance 6/30/04 | <u>\$ (1,221,146)</u> | <u>\$ 556,977</u> |
| Amount Carried Forward to Fiscal Year 2005 | <u>\$ (1,221,146)</u> | <u>\$ 556,977</u> |
| Total Restricted Assets | <u>\$ -</u> | <u>\$ 556,977</u> |

NOTE 16 – MARION CITY SCHOOLS DIGITAL ACADEMY

As indicated in Note 1 to the basic financial statements, the following disclosures are made on behalf of the Marion City Schools Digital Academy (Academy).

The Academy prepares its financial statements in accordance with accounting principles generally accepted in the United State of America (GAAP) as applied to governmental nonprofit organizations. The preparation of the financial statements requires the use of estimates made by management. An analysis of the Statement of Net Assets is presented below. If you have questions about the Academy, please contact Mr. Robert Wood, Treasurer of Marion City School Digital Academy, 910 East Church Street, Marion, OH 43302.

| | |
|---------------------------------------------------|-----------------|
| Current Assets | \$66,549 |
| Non-Current Assets | <u>23,759</u> |
| Total Assets | <u>\$90,308</u> |
| Current Liabilities | \$48,266 |
| Investment in Capital Assets, Net of Related Debt | \$23,759 |
| Unrestricted Net Assets | <u>18,283</u> |
| Total Net Assets | <u>\$42,042</u> |

NOTE 17 – OPERATING TRANSFER

The District's General Fund transferred \$50,000 to the Harding Athletic Fund for operations.

**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004**

NOTE 18 – CONTINGENT LIABILITIES

A. Grants

The District receives significant financial assistance from numerous federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. 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, 2004.

B. Litigation

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

C. School Funding Decision

On December 11, 2003, 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 District is currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

NOTE 19 – FISCAL WATCH

The District was declared to be in a state of fiscal caution on March 26, 2004 due to the District's financial condition. On June 17, 2004 the State Auditor's Office declared the District in a state of fiscal watch under Section 3316.03(A)(3) of the Ohio Revised Code due to their inability to develop an acceptable plan to eliminate the conditions that lead to the declaration of fiscal caution.



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND
ON INTERNAL CONTROLS REQUIRED BY
GOVERNMENT AUDITING STANDARDS**

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

To the Board of Education:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Marion City School District, Marion County, Ohio (the District) as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 11, 2005. 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 February 11, 2005.

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 certain matters involving the internal control over financial reporting 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 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. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2004-1 through 2004-3.

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 consider each of the reportable conditions noted above to be material weaknesses. We also noted other matters involving the internal control over financial reporting that we have reported to management of the District in a separate letter dated February 11, 2005.

Marion City School District
Report on Compliance and on Internal Controls
required by *Government Auditing Standards*
Page 2

This report is intended for the information and use of the audit 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.

Kennedy, Cottrell + Associates LLC

Kennedy, Cottrell + Associates
February 11, 2005



**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO MAJOR FEDERAL PROGRAMS AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Marion City School District
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, 2004. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the 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 with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the 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, 2004.

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.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a 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. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information and use of the audit 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.

Kennedy, Cottrell + Associates LLC

Kennedy, Cottrell + Associates
February 11, 2005

**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2004**

| Federal Grantor/ Pass Through Grantor Program Title | Federal CFDA Number | Agency or pass through number | Receipts | Non-Cash Receipts | Expenditures | Non-Cash Expenditures |
|----------------------------------------------------------------------------------------------------|------------------------------------|----------------------------------------------|------------------|------------------------------|---------------------|----------------------------------|
| <u>U.S. DEPARTMENT OF AGRICULTURE</u> | | | | | | |
| <i>Passed Through the Ohio Department of Education</i> | | | | | | |
| Child Nutrition Cluster: | | | | | | |
| Food Distribution Program | 10.550 | n/a | - | 207,872 | - | 158,309 |
| National School Breakfast Program | 10.553 | 044339 05PU 03-04 044339 05RE 04 | 115,213 4,500 | - - | 115,213 4,500 | - - |
| National School Lunch Program | 10.555 | 044339 LLP1 03-04 044339 LLP4 03-04 | 5,660 631,978 | - - | 5,660 631,978 | - - |
| Summer Food Service Program for Children | 10.559 | 044339 23PU 03-04 044339 24PU 03-04 | 54,330 5,950 | - - | 54,330 5,950 | - - |
| Team Nutrition | 10.574 | 044339 TWAD 04 | 10,000 | - | - | - |
| Total U.S. Department of Agriculture - Child Nutrition Cluster | | | 827,631 | 207,872 | 817,631 | 158,309 |
| <u>U.S. DEPARTMENT OF EDUCATION</u> | | | | | | |
| <i>Passed Through the Ohio Department of Education</i> | | | | | | |
| Special Education Cluster: | | | | | | |
| Special Education | 84.027 | 044339 6B 03-04 | 939,092 | - | 901,773 | - |
| Special Education - Preschool | 84.173 | 044339 PG 03-04 | 32,105 | - | 34,533 | - |
| Total Special Education Cluster | | | 971,197 | - | 936,306 | - |
| Adult Basic Literacy in Education | 84.002 | 044339 ABS1 03-04 | 77,335 | - | 93,110 | - |
| Title I | 84.010 | 044339 C1S1 02-04 | 1,164,740 | - | 1,412,082 | - |
| Safe and Drug-Free Schools and Communities | 84.186 | 044339 DRS1 02-04 | 28,865 | - | 41,154 | - |
| Goals 2000 | 84.276 | 044339 G2S1 00 | (10,442) | - | 1,351 | - |
| Eisenhower Professional Development | 84.281 | 044339 MSS1 01 | (372) | - | 3,833 | - |
| Innovative Educational Program Strategies | 84.298 | 044339 C2S1 02-04 | 43,508 | - | 41,175 | - |
| Technology Literacy Challenge Fund | 84.318 | 044339 TJS1 03-04 | 27,969 | - | 29,164 | - |
| Comprehensive School Reform Demonstration | 84.332 | 044339 RFCC 03-04 | 14,574 | - | 18,596 | - |
| Class Size Reduction | 84.340 | 044339 CRS1 02 | 56,506 | - | - | - |
| School Renovation Idea and Technology | 84.352 | 044339 ATS4 02 | 15,268 | - | 4,759 | - |
| Title III | 84.365 | 044339 T3S1 03-04 | 37,394 | - | 34,828 | - |
| Improving Teacher Quality | 84.367 | 044339 TRS1 03-04 | 354,275 | - | 352,578 | - |
| Total U.S. Department of Education | | | 2,780,817 | - | 2,968,936 | - |
| <u>U.S. CORPORATION FOR NATIONAL AND COMMUNITY SERVICE</u> | | | | | | |
| <i>Passed Through the Ohio Department of Education</i> | | | | | | |
| Learn and Serve America | 94.004 | 044339 SVS1 04 | 2,700 | - | 2,952 | - |
| Total U.S. Corporation for National and Community Service | | | 2,700 | - | 2,952 | - |
| <u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u> | | | | | | |
| <i>Passed Through the Ohio Department of Mental Retardation and Developmental Disabilities</i> | | | | | | |
| Medical Assistance Program | 93.778 | n/a | 207,226 | - | 207,226 | - |
| Total U.S. Department of Health and Human Services | | | 207,226 | - | 207,226 | - |
| TOTAL FEDERAL AWARDS RECEIPTS AND EXPENDITURES | | | 3,818,374 | 207,872 | 3,996,745 | 158,309 |

See accompanying notes to the Schedule of Federal Awards Receipts and Expenditures

**MARION CITY SCHOOL DISTRICT
MARION COUNTY, OHIO**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2004**

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

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

NOTE 2 – 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 that federal monies are expended first. At June 30, 2004, the District had no significant food commodities in inventory.

**MARION CITY SCHOOL DISTRICT
MARION COUNTY, OHIO**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 § .505
JUNE 30, 2004**

| |
|----------------------------------------|
| 1. SUMMARY OF AUDITOR'S RESULTS |
|----------------------------------------|

| | | |
|--------------|----------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| (d)(1)(i) | Type of Financial Statement Opinion | Unqualified |
| (d)(1)(ii) | Were there any material control weakness conditions reported at the financial statement level (GAGAS)? | Yes |
| (d)(1)(ii) | Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)? | Yes |
| (d)(1)(iii) | Was there any reported material noncompliance at the financial statement level (GAGAS)? | No |
| (d)(1)(iv) | Were there any material internal control weakness conditions reported for major federal programs? | No |
| (d)(1)(iv) | Were there any other reportable internal control weakness conditions reported for major federal programs? | No |
| (d)(1)(v) | Type of Major Programs' Compliance Opinion | Unqualified |
| (d)(1)(vi) | Are there any reportable findings under § .510(a) of Circular A-133? | No |
| (d)(1)(vii) | Major Programs (list): | <u>Child Nutrition Cluster:</u> CFDA #10.550 – Food Distribution Program CFDA #10.553 – School Breakfast Program CFDA #10.555 – School Lunch Program CFDA #10.559 – Summer Food Service Program for Children <u>Special Education Cluster:</u> CFDA #84.027 – Special Education CFDA #84.173 – Special Education Preschool CFDA #84.367 – Improving Teacher Quality CFDA #93.778 – Medical Assistance Program |
| (d)(1)(viii) | Dollar Threshold: Type A/B Programs | Type A: > \$300,000 Type B: All others |
| (d)(1)(ix) | Low Risk Auditee? | No |

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

FINDING NUMBER: 2004-1

Inadequate Supporting Documentation - Food Service Receipts

Food service revenues are predominantly collected in cash and accountability for the cash is not established until revenues are recorded. It is imperative that the District implement effective internal controls and maintain adequate supporting documentation to ensure the accuracy and completeness of food service revenues recorded.

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 school 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.

FINDING NUMBER: 2004-2

Inadequate Supporting Documentation – Student Activity Receipts

The District has formed a variety of student activities, also called extracurricular or co-curricular activities, intended to provide a learning experience for students. Student activity funds have been established for activities such as athletic events, debate clubs, language clubs, and senior yearbooks. Student activity revenues are often collected in cash and accountability for the cash is not established until revenues are recorded. It is imperative that the District implement effective internal controls and maintain adequate supporting documentation to ensure the accuracy and completeness of extracurricular revenues recorded.

When performing our testing of extracurricular activity receipts, the District was unable to provide adequate supporting documentation, such as a duplicate receipts, ticket stubs, etc. for the five student activities selected for testing. This lack of supporting documentation resulted in our inability to obtain reasonable assurance that extracurricular revenues recorded were accurate and complete.

We recommend that the District devise and implement internal control procedures capable of providing management with assurance that extracurricular revenues recorded are accurate and complete. We also recommend the District maintain necessary documentation to support student activity receipts and evidence the performance of internal control procedures implemented. The form of the documentation may vary depending upon the nature of the activity; however, the District should be able to reconcile amounts posted and deposited to the underlying documentation.

FINDING NUMBER: 2004-3

Inadequate Supporting Documentation – Capital Assets

Sound accounting practice requires proper tracking of capital asset additions and disposals to prevent misappropriation of capital assets and facilitate accurate financial reporting in accordance with accounting principles generally accepted in the United States of America.

Currently, the District procedures in place to track individual capital asset additions and disposals are inadequate, resulting in District management’s inability to obtain assurance that capital asset inventory records are an accurate reflection of capital assets owned by the District.

We recommend the District update its capital asset system to reflect current inventory and implement procedures to track capital asset additions and disposals timely. Furthermore, we recommend the District flag invoices which qualify as capital asset additions, so that those purchases can be added to the capital asset inventory. The District should also require building principals or other responsible officials to approve capital asset disposal forms which would assist in tracking asset disposals. Finally, we recommend the District perform a complete physical inventory of capital assets and compare the physical inventory to the capital assets on the capital asset system to ensure the capital asset system is accurate.

| |
|------------------------------------------------------------|
| 3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS |
|------------------------------------------------------------|

None.

**MARION CITY SCHOOL DISTRICT
MARION COUNTY, OHIO**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2004**

| Finding Number | Finding Summary | Fully Corrected? | Not Corrected, Partially Corrected; Significantly Different Correction Action Taken; or Finding No Longer Valid; Explain: |
|----------------|-------------------------------------------------------------|------------------|----------------------------------------------------------------------------------------------------------------------------------|
| 2003-1 | Appropriation exceeded estimated resources. | Yes | Fully corrected. |
| 2003-2 | Inadequate support for food service receipts. | No | Not corrected. Finding has been repeated in the current year report. |
| 2003-3 | Improper tracking of capital asset additions and disposals. | No | Not corrected. Finding has been repeated in the current year report. |
| 2003-4 | Budgetary revenues inaccurately posted to revenue ledger. | No | Finding No Longer Valid. |
| 2003-5 | Inaccurate grant reporting. | Yes | Fully corrected. |



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
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
MARCH 24, 2005**