



Mary Taylor, CPA  
Auditor of State



**MARION LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**TABLE OF CONTENTS**

<b>TITLE</b>	<b>PAGE</b>
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements – June 30, 2010:	
Government-Wide Financial Statements:	
Statement of Net Assets – Cash Basis – June 30, 2010.....	9
Statement of Activities – Cash Basis – For the Fiscal Year Ended June 30, 2010.....	10
Fund Financial Statements:	
Statement of Cash Basis Assets and Fund Balances – Governmental Funds - June 30, 2010.....	11
Statement of Cash Receipts, Cash Disbursements and Changes in Cash Basis Fund Balances - Governmental Funds - For the Fiscal Year Ended June 30, 2010.....	12
Statement of Receipts, Disbursements and Changes in Fund Balance Budget and Actual (Budget Basis) – General Fund For the Fiscal Year Ended June 30, 2010.....	13
Statement of Receipts, Disbursements and Changes in Fund Balance Budget and Actual (Budget Basis) – OSFC Permanent Improvement Maintenance Fund For the Fiscal Year Ended June 30, 2010.....	14
Statement of Fiduciary Net Assets – Cash Basis – Fiduciary Funds June 30, 2010.....	15
Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2010.....	17
Schedule of Federal Awards Expenditures.....	39
Notes to the Schedule of Federal Awards Expenditures.....	40
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required By <i>Governmental Auditing Standards</i> .....	41
Independent Accountants' Report on Compliance with Requirements Applicable to Each Major Federal Program and on Internal Control Over Compliance Required by OMB Circular A-133.....	43
Schedule of Findings.....	45
Schedule of Prior Audit Findings.....	47

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# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Marion Local School District, Mercer County, (the School District), as of and for the fiscal year ended June 30, 2010, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Marion Local School District, Mercer County, Ohio, as of June 30, 2010, and the respective changes in cash financial position and the respective budgetary comparison for the General Fund and Ohio School Facilities Commission (OSFC) Permanent Improvement Maintenance Special Revenue Fund thereof for the fiscal year then ended in conformity with the basis of accounting Note 2 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2010, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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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 have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to opine on the financial statements that collectively comprise the School District's basic financial statements. The Schedule of Federal Awards Receipts and Expenditures presents additional information and 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 this schedule to the auditing procedures applied in our audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Mary Taylor".

**Mary Taylor, CPA**  
Auditor of State

October 20, 2010

**MARION LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEARS ENDED JUNE 30, 2010  
(UNAUDITED)**

The discussion and analysis of the Marion Local School District's (the School District) financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2010. The intent of this discussion and analysis is to look at the School District's performance as a whole; readers should also review the notes to the basic financial statements to enhance their understanding of the School District's financial performance.

**Financial Highlights**

Key financial highlights for 2010 are as follows:

- Total program disbursements were \$9,281,016.
- General Receipts accounted for \$7,504,881 or 85% of all receipts. Program specific receipts in the form of charges for services and sales, grants, contributions, and interest accounted for \$1,347,127 or 15% of total receipts of \$8,852,008.
- In total, net assets decreased \$429,008 primarily as a result of an increase in instruction and capital outlay disbursements.

**Using this Annual Report**

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

The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole School District. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's most significant funds with all other non-major funds presented in total in one column. In the case of the Marion Local School District, the general fund is by far the most significant fund.

**Basis of Accounting**

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

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

**MARION LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEARS ENDED JUNE 30, 2010  
(UNAUDITED)  
(Continued)**

**Reporting the School District as a Whole**

**Statement of Net Assets and the Statement of Activities**

While this document contains the large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2010?" The Statement of Net Assets and the Statement of Activities answer this question.

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

In the Statement of Net Assets and the Statement of Activities, Governmental Activities include the School District's programs and services, including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities, and food service operations.

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

**Fund Financial Statements**

The analysis of the School District's major funds begins on page 7 for fiscal year 2010. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the General Fund, the Bond Retirement Fund and the OSFC Permanent Improvement Maintenance Fund.

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

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

The School District acts in a trustee capacity as an agent for student organizations. These activities are reported in agency funds. The School District's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets on page 15. These activities are excluded from the School District's other financial statements because the assets cannot be utilized by the School District to finance its operations.



**MARION LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEARS ENDED JUNE 30, 2010  
(UNAUDITED)  
(Continued)**

**The School District as a Whole**

The financial statements for fiscal year 2010 and 2009 were prepared on the cash basis utilizing the GASB Statement No. 34 format.

Table 1 provides a summary of the School District's net assets for fiscal years 2010 and 2009:

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

	<b>Governmental Activities</b>	
	<b>2010</b>	<b>2009</b>
<b>Assets:</b>		
Equity in Pooled Cash and Cash Equivalents	\$2,455,325	\$2,884,333
Total Assets	<u>2,455,325</u>	<u>2,884,333</u>
<b>Net Assets:</b>		
<b>Restricted for:</b>		
Debt Service	317,480	280,966
Capital Outlay	104,842	697,117
Other Purposes	730,210	572,691
Set Asides	171,169	248,502
Bus Purchase		7,151
Unrestricted	1,131,624	1,077,906
Total Net Assets	<u>\$2,455,325</u>	<u>\$2,884,333</u>

These statements were prepared on the cash basis of accounting utilizing GASB 34 format. Table 2 shows the changes in net assets for fiscal years 2010 and 2009, comparatively. This comparison enables the reader to draw further conclusion about the School District's financial status and possibly project future problems.

**(Table 2)**  
**Change in Net Assets**

	<b>Governmental Activities</b>	
	<b>2010</b>	<b>2009</b>
<b>Receipts:</b>		
<b>Program Receipts:</b>		
Charges for Services	\$737,621	\$ 741,380
Operating Grants	592,819	674,447
Capital Grants	16,687	21,509
<b>General Receipts:</b>		
Property Taxes	2,750,646	2,487,522
Grants and Entitlements	4,666,674	4,400,736
Proceeds from Sale of Notes		398,830
Interest	50,892	82,365
Other	36,669	40,194
Total Receipts	<u>8,852,008</u>	<u>8,846,983</u>

(Continued)

**MARION LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEARS ENDED JUNE 30, 2010  
(UNAUDITED)  
(Continued)**

**(Table 2)  
Changes in Net Assets  
(Continued)**

	<b>Governmental Activities</b>	
	<b>2010</b>	<b>2009</b>
<b>Disbursements:</b>		
<b>Program Disbursements:</b>		
Instruction	5,293,876	5,031,091
Support Services	2,341,417	2,323,686
Operation of Non-Instruction Services		48,076
Operation of Food Services	334,615	319,149
Extracurricular	375,698	384,447
Capital Outlay	569,893	140,197
Debt Service	365,517	322,063
Total Disbursements	<u>9,281,016</u>	<u>8,568,709</u>
Increase/(Decrease) in Net Assets	<u>(\$429,008)</u>	<u>\$ 278,274</u>

**Governmental Activities**

Several sources fund the School District's governmental activities with the grants and entitlements being the largest contributor. The School District received \$4.6 million in foundation settlement payments in fiscal year 2010. Property tax levies generated \$2.8 million in 2010. The School District's operations are reliant upon its tax levies and the state's foundation program. Thus, the School District monitors both of these receipt sources closely.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services for fiscal year 2010 and 2009, comparatively. That is, it identifies the cost of these services supported by tax receipts and unrestricted State entitlements.

**(Table 3)  
Governmental Activities**

	<b>2010</b>		<b>2009</b>	
	<b>Total Cost of Service</b>	<b>Net Cost of Service</b>	<b>Total Cost of Service</b>	<b>Net Cost of Service</b>
Instruction	\$5,293,876	\$4,529,175	\$5,031,091	\$4,291,252
<b>Support Services:</b>				
Pupil and Instructional Staff	488,575	481,937	459,002	451,900
Board of Education, Administration				
Fiscal and Business	941,773	905,599	886,528	850,144
Operation and Maintenance of Plant	565,012	529,756	651,533	616,263
Pupil Transportation	346,057	334,772	320,891	290,847
Central			5,732	732
Operation of Non-Instructional Services			48,076	(7,951)
Operation of Food Services	334,615	15,472	319,149	18,277
Extracurricular Activities	375,698	218,455	384,447	221,598
Capital Outlay	569,893	553,206	140,197	123,727
Debt Service	365,517	365,517	322,063	274,584
Total	<u>\$9,281,016</u>	<u>\$7,933,889</u>	<u>\$8,568,709</u>	<u>\$7,131,373</u>

**MARION LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEARS ENDED JUNE 30, 2010  
(UNAUDITED)  
(Continued)**

Instruction and student support services comprise 62% of governmental program disbursements in fiscal year 2010. Board of Education, administration, fiscal and business charges are 10% of total disbursements. Pupil transportation and the operation/maintenance of facilities accounts for 10% of all governmental program disbursements.

The dependence upon school foundation and tax receipts for governmental activities is apparent. The State funding, as a whole, is by far the primary support for Marion Local School District students.

**The School District's Funds**

The School District has three major governmental funds: the General Fund, the Bond Retirement Fund and the OSFC Permanent Improvement Maintenance Fund. Receipts of the General Fund comprise \$7,046,459 (80%) of the total \$8,830,678 in governmental receipts and \$7,078,227 (76%) of the total governmental funds disbursements.

**General Fund** – The General Fund cash balance at June 30, 2010 was \$1,210,667, which represents 49% of total governmental fund cash balances for fiscal year 2010. General fund receipts and other financing sources were less than disbursements and other financing uses by \$56,291 mostly due to an increase in instruction and support services.

**Bond Retirement Fund** – The Bond Retirement Fund cash balance at June 30, 2010 was \$317,480, which represents 13% of total governmental fund cash balances for fiscal year 2010.

**OSFC Permanent Improvement Maintenance Fund** – The OSFC Permanent Improvement Maintenance Fund cash balance at June 30, 2010 was \$406,482, which represents 17% of total governmental fund cash balances for fiscal year 2010.

**General Fund Budgeting Highlights**

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

During the course of fiscal year 2010, the School District did not modify its general fund budget significantly. The School District uses site-based budgeting, and budgeting systems are designed to tightly control total site budgets but provide flexibility for site management.

For the fiscal year 2010, general fund budget basis receipts were \$204,387, over the final budget of \$6,842,072. This increase was mostly attributable to increases in tax receipts and tuition and fees. General fund budget basis disbursements were \$630,308 under the final budget of \$7,776,441. This decrease was largely due to decreases in instruction, administration and operation and maintenance of plant.

**Debt Administration**

At June 30, 2010, the School District's outstanding debt included \$1,885,000 in Serial and Term Bonds and \$629,419 in Capital Appreciation Bonds issued for improvements to school building and structures. The School District also has \$4,307 outstanding in an interest-free Environmental Protection Loan for asbestos removal projects. In addition, an Energy Conservation Loan was issued during fiscal year 2009, in the amount of \$398,830 for the purpose of providing Energy Conservation measures for the School District under H.B. 264. For further information regarding the School District's debt, refer to Note 10 to the basic financial statements.

**MARION LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEARS ENDED JUNE 30, 2010  
(UNAUDITED)  
(Continued)**

**Current Issues**

The Marion Local School District, while relying on the State of Ohio to furnish almost two thirds of their financial support, also continues to receive strong support from the residents of the School District. The Board of Education submitted a new emergency levy of 11.6 mills, which was approved by the residents in March, 2008. The School District also passed a ½ mill maintenance levy in 1999 which will run for 23 years to help maintain facilities renovated by the project. The School District passed 2.2 mill new emergency levy in the November 2008 elections.

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

Thus, the School District's dependence upon property taxes is hampered by a lack of revenue growth and the School District must regularly return to the voters to maintain a constant level of service. Property taxes made up 31% of total receipts for governmental activities for the Marion Local School District in fiscal year 2010 and 28% in fiscal year 2009.

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

The Marion Local School District has not seen any meaningful growth in State funding for three years. How the legislature plans to fund education programs during a weakened economy remains a concern.

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

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

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

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Paul Gagel, Treasurer of Marion Local School District, 7956 SR 119, Maria Stein, OH 45860.

**MARION LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**STATEMENT OF NET ASSETS - CASH BASIS  
JUNE 30, 2009**

	<u><b>Governmental Activities</b></u>
<b>Assets:</b>	
Equity in Pooled Cash and Cash Equivalents	<u>\$2,455,325</u>
Total Assets	<u>2,455,325</u>
<b>Net Assets:</b>	
<b>Restricted for:</b>	
Debt Service	317,480
Capital Outlay	104,842
Other Purposes	730,210
Set Asides	171,169
Unrestricted	<u>1,131,624</u>
Total Net Assets	<u><u>\$2,455,325</u></u>

*See accompanying notes to the financial statements.*

**MARION LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**STATEMENT OF ACTIVITIES - CASH BASIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

	Program Cash Receipts			Net (Disbursements) Receipts and Changes in Net Assets
	Cash Disbursements	Charges for Services and Sales	Operating Grants, Contributions and Interest	Capital Grants, Contributions and Interest
				Governmental Activities
<b>Governmental Activities:</b>				
<b>Instruction:</b>				
Regular	\$4,119,818	\$295,044	\$70,201	(\$3,754,573)
Special	1,039,488		335,768	(703,720)
Vocational	122,665		63,688	(58,977)
Other	11,905			(11,905)
<b>Support Services:</b>				
Pupil	211,163		5,000	(206,163)
Instructional Staff	277,412		1,638	(275,774)
Board of Education	39,749			(39,749)
Administration	632,808	24,534	1,759	(606,515)
Fiscal	265,210	8,795	1,086	(255,329)
Business	4,006			(4,006)
Operation and Maintenance of Plant	565,012		35,256	(529,756)
Pupil Transportation	346,057	11,285		(334,772)
Operation of Food Services	334,615	240,720	78,423	(15,472)
Extracurricular Activities	375,698	157,243		(218,455)
Capital Outlay	569,893			(553,206)
Repayment of Debt	365,517			(365,517)
Total Governmental Activities	<u>\$9,281,016</u>	<u>\$737,621</u>	<u>\$592,819</u>	<u>\$16,687</u>
				<u>(7,933,889)</u>
<b>General Receipts:</b>				
<b>Property Taxes Levied for:</b>				
General Purposes				2,325,144
Debt Service				306,122
Capital Improvement				89,578
Classroom Facilities & Maintenance				29,802
Grants and Entitlements not Restricted to Specific Programs				4,666,674
Interest				50,892
Proceeds from Sale of Capital Assets				1,330
Miscellaneous				35,339
Total General Receipts				<u>7,504,881</u>
Change in Net Assets				(429,008)
Net Assets Beginning of Year				<u>2,884,333</u>
Net Assets End of Year				<u>\$2,455,325</u>

See accompanying notes to the financial statements.

**MARION LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**STATEMENT OF CASH BASIS ASSETS AND FUND BALANCES  
GOVERNMENTAL FUNDS  
JUNE 30, 2010**

	<u>General Fund</u>	<u>Bond Retirement Fund</u>	<u>OSFC Permanent Improvement Maintenance Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>					
Equity in Pooled Cash and Cash Equivalents	\$1,039,498	\$317,480	\$406,482	\$520,696	\$2,284,156
Restricted Cash and Cash Equivalents	171,169				171,169
<b>Total Assets</b>	<u>1,210,667</u>	<u>317,480</u>	<u>406,482</u>	<u>520,696</u>	<u>2,455,325</u>
<b>Fund Balances:</b>					
<b>Reserved for:</b>					
Encumbrances	67,904		6,845	14,204	88,953
Textbooks and Instructional Materials	171,169				171,169
<b>Unreserved, Designated For:</b>					
Severance and Termination				92,126	92,126
<b>Unreserved, Undesignated, Reported in:</b>					
General Fund	971,594				971,594
Special Revenue Funds			399,637	311,046	710,683
Debt Service		317,480			317,480
Capital Projects Funds				103,320	103,320
<b>Total Fund Balances</b>	<u>\$1,210,667</u>	<u>\$317,480</u>	<u>\$406,482</u>	<u>\$520,696</u>	<u>\$2,455,325</u>

See accompanying notes to the financial statements.

**MARION LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND CHANGES IN CASH BASIS FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

	General Fund	Bond Retirement Funds	OSFC Permanent Improvement Maintenance Fund	Other Governmental Funds	Total Governmental Funds
<b>Receipts:</b>					
Taxes	\$2,325,143	\$306,122	\$29,802	\$89,578	\$2,750,645
Intergovernmental	4,400,787	49,164	36,342	787,590	5,273,883
Interest	50,892			2,575	53,467
Tuition and Fees	257,131			49,198	306,329
Rent	8,795				8,795
Extracurricular Activities				181,778	181,778
Customer Sales and Services				240,719	240,719
Miscellaneous	3,711	9,830		1,521	15,062
Total Receipts	<u>7,046,459</u>	<u>365,116</u>	<u>66,144</u>	<u>1,352,959</u>	<u>8,830,678</u>
<b>Disbursements:</b>					
<b>Current:</b>					
<b>Instruction:</b>					
Regular	3,702,349			417,469	4,119,818
Special	712,670			326,818	1,039,488
Vocational Education	121,999			666	122,665
Other	11,905				11,905
<b>Support Services:</b>					
Pupil	211,163				211,163
Instructional Staff	275,774			1,638	277,412
Board of Education	39,749				39,749
Administration	604,767			28,041	632,808
Fiscal	255,357	7,085	691	2,077	265,210
Business	4,006				4,006
Operation and Maintenance of Plant	544,203		20,809		565,012
Pupil Transportation	345,955			102	346,057
Operation of Food Services				334,615	334,615
Extracurricular Activities	243,330			132,368	375,698
Capital Outlay	5,000			564,893	569,893
<b>Debt Service:</b>					
Principal		267,584			267,584
Interest		97,933			97,933
Total Disbursements	<u>7,078,227</u>	<u>372,602</u>	<u>21,500</u>	<u>1,808,687</u>	<u>9,281,016</u>
Excess of Receipts Over (Under) Disbursements	<u>(31,768)</u>	<u>(7,486)</u>	<u>44,644</u>	<u>(455,728)</u>	<u>(450,338)</u>
<b>Other Financing Sources (Uses):</b>					
Transfers In		44,000	99,952	45,853	189,805
Proceeds from Sale of Capital Assets	1,330				1,330
Refund of Prior Year Disbursements	20,000				20,000
Transfers Out	(45,853)			(143,952)	(189,805)
Total Other Financing Sources (Uses)	<u>(24,523)</u>	<u>44,000</u>	<u>99,952</u>	<u>(98,099)</u>	<u>21,330</u>
Net Change in Fund Balances	(56,291)	36,514	144,596	(553,827)	(429,008)
Fund Balances - Beginning of Year	1,266,958	280,966	261,886	1,074,523	2,884,333
Fund Balances - End of Year	<u>\$1,210,667</u>	<u>\$317,480</u>	<u>\$406,482</u>	<u>\$520,696</u>	<u>\$2,455,325</u>

See accompanying notes to the financial statements.



**MARION LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL (BUDGET BASIS)  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Receipts:</b>				
Taxes	\$2,084,607	\$2,084,607	\$2,325,143	\$240,536
Intergovernmental	4,555,048	4,422,649	4,400,787	(21,862)
Interest	80,500	80,500	50,892	(29,608)
Tuition and Fees	235,316	235,316	257,131	21,815
Rent	7,000	7,000	8,795	1,795
Miscellaneous	12,000	12,000	3,711	(8,289)
Total Receipts	<u>6,974,471</u>	<u>6,842,072</u>	<u>7,046,459</u>	<u>204,387</u>
<b>Disbursements:</b>				
<b>Current:</b>				
<b>Instruction:</b>				
Regular	3,952,966	3,987,843	3,717,837	270,006
Special	776,508	774,712	733,246	41,466
Vocational Education	130,460	130,460	121,999	8,461
Other	24,900	24,900	11,905	12,995
<b>Support Services:</b>				
Pupil	226,028	226,028	211,413	14,615
Instructional Staff	277,016	311,316	275,774	35,542
Board of Education	61,474	61,474	51,586	9,888
Administration	651,186	653,836	605,167	48,669
Fiscal	274,722	283,022	262,014	21,008
Business	5,000	5,000	4,006	994
Operation and Maintenance of Plant	659,754	661,054	552,381	108,673
Pupil Transportation	361,351	387,351	350,475	36,876
Central	1,700	1,700		1,700
Extracurricular Activities	256,745	261,745	243,330	18,415
<b>Capital Outlay:</b>				
Site Improvement	3,000	5,000	5,000	
Architecture and Engineering	1,000	1,000		1,000
Total Disbursements	<u>7,663,810</u>	<u>7,776,441</u>	<u>7,146,133</u>	<u>630,308</u>
Excess of Receipts Over (Under) Disbursements	<u>(689,339)</u>	<u>(934,369)</u>	<u>(99,674)</u>	<u>834,695</u>
<b>Other Financing Sources (Uses):</b>				
Advances In	40,000	45,000	23,674	(21,326)
Proceeds from Sale of Capital Assets			1,330	1,330
Refund of Prior Year Disbursements			20,000	20,000
Transfers Out	(54,100)	(54,100)	(45,853)	8,247
Advances Out	(30,000)	(45,000)	(23,674)	21,326
Refund of Prior Year Receipts	(1,000)	(1,000)		1,000
Other Financing Uses	(10,000)	(10,000)		10,000
Total Other Financing Sources (Uses)	<u>(55,100)</u>	<u>(65,100)</u>	<u>(24,523)</u>	<u>40,577</u>
Net Change in Fund Balances	(744,439)	(999,469)	(124,197)	875,272
Fund Balances Beginning of Year	1,203,077	1,203,077	1,203,077	
Prior Year Encumbrances Appropriated	63,883	63,883	63,883	
Fund Balances End of Year	<u>\$522,521</u>	<u>\$267,491</u>	<u>\$1,142,763</u>	<u>\$875,272</u>

See accompanying notes to the financial statements.

**MARION LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL(BUDGET BASIS)  
OSFC PERMANENT IMPROVEMENT MAINTENANCE FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Receipts:</b>				
Taxes	\$32,060	\$32,060	\$29,802	(\$2,258)
Intergovernmental	36,342	35,136	36,342	1,206
Total Receipts	<u>68,402</u>	<u>67,196</u>	<u>66,144</u>	<u>(1,052)</u>
<b>Disbursements:</b>				
<b>Current:</b>				
Fiscal	1,150	1,150	691	459
Operation and Maintenance of Plant	51,231	51,231	27,654	23,577
Total Disbursements	<u>52,381</u>	<u>52,381</u>	<u>28,345</u>	<u>24,036</u>
Excess of Receipts Over (Disbursements)	<u>16,021</u>	<u>14,815</u>	<u>37,799</u>	<u>22,984</u>
<b>Other Financing Sources (Uses):</b>				
Transfers In		99,952	99,952	
Transfers Out	(22,000)	(22,000)		22,000
Total Other Financing Sources (Uses)	<u>(22,000)</u>	<u>77,952</u>	<u>99,952</u>	<u>22,000</u>
Net Change in Fund Balances	(5,979)	92,767	137,751	44,984
Fund Balances Beginning of Year	260,656	260,656	260,656	
Prior Year Encumbrances Appropriated	<u>1,230</u>	<u>1,230</u>	<u>1,230</u>	
Fund Balances End of Year	<u>\$255,907</u>	<u>\$354,653</u>	<u>\$399,637</u>	<u>\$44,984</u>

*See accompanying notes to the financial statements.*

MARION LOCAL SCHOOL DISTRICT  
MERCER COUNTY

STATEMENT OF FIDUCIARY NET ASSETS - CASH BASIS  
FIDUCIARY FUNDS  
JUNE 30, 2010

	<u>Agency</u>
<b>Assets:</b>	
Equity in Pooled Cash and Cash Equivalents	<u>\$86,513</u>
Total Assets	<u>86,513</u>
<b>Net Assets:</b>	
Held for Student Activities	<u>86,513</u>
Total Net Assets	<u><u>\$86,513</u></u>

*See accompanying notes to the financial statements.*

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**MARION LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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

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

The School District was established in 1955. The School District serves an area of approximately fifty-four square miles. It is located in Auglaize, Darke, and Mercer Counties. It is staffed by thirty-nine non-certified employees, sixty-five certified teaching personnel, and six administrative employees who provide services to approximately eight hundred eighty six students and other community members. The School District currently operates two instructional buildings.

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

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

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**MARION LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
(Continued)**

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

**A. Basis of Accounting**

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

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

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

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

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

**1. Government-Wide Financial Statements**

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

The Statement of Net Assets presents the financial condition of the governmental activities of the School District at year-end. The Statement of Activities presents a comparison between disbursements and program receipts for each program or function of the School District's governmental activities of the School District. Disbursements are those that are specifically associated with a service, program or department, and therefore, clearly identifiable to a particular function.

Program receipts include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Receipts which are not classified as program receipts are presented as general receipts of the School District with certain limited exceptions. The comparison of disbursements with program receipts identifies the extent to which each business segment or governmental function is self-financing or draws from the general resources of the School District. Governmental activities generally are financed through taxes, intergovernmental receipts, and other non-exchange receipts.

**MARION LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
(Continued)**

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

**2. Fund Financial Statements**

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

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

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

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

The funds of the financial reporting entity are described below:

**3. Governmental Funds / Governmental Activities**

Governmental funds are those through which most governmental functions of the School District are financed.

The following are the School District's major governmental funds for fiscal year 2010:

**General Fund** - The General Fund is the primary operating fund of the School District and always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

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

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

**MARION LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
(Continued)**

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

**4. Fiduciary Fund Types**

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

**C. Budgetary Process**

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

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

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

**1. Tax Budget**

Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The express purpose of this budget document is to reflect the need for existing (or increased) tax rates.

By no later than January 20, the Board-adopted budget is filed with the County Budget Commission for rate determination.

**2. Estimated Resources**

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



**MARION LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
(Continued)**

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

**3. Appropriations**

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

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

**4. Encumbrances**

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

**5. Lapsing of Appropriations**

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

**D. Cash and Cash Equivalents**

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

For purposes of financial reporting, investments of the School District's cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months that were not purchased from the pool are reported as investments.

**MARION LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
(Continued)**

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

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or negative receipts (contra revenue), respectively.

During fiscal year 2009, the School District's investments included nonnegotiable certificates and STAR Ohio. Investments are reported at cost, except for STAR Ohio. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30 of the fiscal year. Investment earnings are allocated as authorized by State statute based upon School District policy.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest receipts credited to the General Fund during fiscal year 2010 were \$50,892, which includes \$25,094 assigned from other School District funds.

**E. Restricted Assets**

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributions, grantors, law of other governments, or imposed by law through constitutional provisions or enabling legislation. Restricted assets in the General Fund include unexpended revenues for amounts set-aside for textbook and instructional materials.

**F. Capital Assets**

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

**G. Accumulated Leave**

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

**H. Long-Term Debt**

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

**I. Intergovernmental Receipts**

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

**J. Inventory and Prepaid Items**

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

**MARION LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
(Continued)**

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

**K. Interfund Activity**

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

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

The School District reports advances-in and advances-out for interfund loans. These items are not reflected as assets and liabilities on the accompanying financial statements. At fiscal year end June 30, 2010 there were no unpaid interfund cash advances.

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

The School District recognizes disbursements for employer contributions to cost-sharing plans when they are paid. As described in Notes 8 and 9, the employer contributions include portions for pension benefits and for postretirement health care benefits.

**M. Net Assets**

Equity is classified as net assets in the government-wide statements, and displayed in separate components:

1. Restricted net assets – Consists of net assets with constraints placed on the use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or (b) law through constitutional provisions or enabling legislation.
2. Unrestricted net assets – All other net assets that do not meet the definition of “restricted”.

Net assets restricted for other purposes include resources restricted for food service operations, public school support programs, athletic programs, classroom facilities and maintenance tax levy, and federal and state grants restricted to expenditure for specified purposes. The School District’s policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. The School District did not have any net assets restricted by enabling legislation at June 30, 2010.

**N. Fund Balance Reserves and Designations**

Governmental fund equity is classified as fund balance. Fiduciary fund equity is classified the same as in the government-wide statements. The School District records reservations for portions of fund equity which are legally segregated for a specific future use and not available for appropriation or disbursement. Unreserved and undesignated fund balance indicates that portion of fund balance which is available for appropriation in future periods. Fund balance reserves have been established for encumbrances and set-asides for textbook and instructional materials. The designation for severance and termination benefits represent receipts set aside for severance and termination benefit payments to eligible employees.

**MARION LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
(Continued)**

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

**O. Receipts and Disbursements**

1. Program Receipts

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

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

2. Disbursements

Governmental activities include the School District's programs and services, including instruction, support services, operation of food services, and extracurricular activities.

**3. COMPLIANCE**

Ohio Administrative Code, Section 117-2-03 (B), requires the School District to prepare its annual financial report in accordance with generally accepted accounting principles. However, the School District prepared its financial statements on a cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying financial statements omit assets, liabilities, net assets/fund balances, and disclosures that, while material, cannot be determined at this time. The School District can be fined and various other administrative remedies may be taken against the School District.

**4. IMPLEMENTATION OF NEW ACCOUNTING POLICIES**

For the year ended June 30, 2010, the School District has implemented GASB Statement No. 51, *"Accounting and Financial Reporting for Intangible Assets,"* GASB Statement No. 53, *"Accounting and Financial Reporting for Derivative Instruments,"* and GASB Statement No. 58, *"Accounting and Financial Reporting for Chapter 9 Bankruptcies."*

GASB Statement No. 51 establishes standards of accounting and financial reporting for intangible assets for all state and local governments. Inconsistencies in the accounting and financial reporting for intangible assets, particularly in the areas of recognition, initial measurement, and amortization, have occurred in practice due to the absence of sufficiently specific authoritative guidance that addresses these questions. The objective of this Statement is to establish accounting and financial reporting requirements for intangible assets to reduce these inconsistencies, thereby enhancing the comparability of the accounting and financial reporting of such assets among state and local governments.

GASB Statement No. 53 addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments.

GASB Statement No. 58 provides accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code.

Implementation of these GASB Statements did not affect the presentation of the financial statements of the School District.

**MARION LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
(Continued)**

**5. DEPOSITS AND INVESTMENTS**

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

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

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

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

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

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

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

**MARION LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
(Continued)**

**5. 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 twenty-five percent of the interim moneys available for investment at any one time
8. Under certain circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

As of June 30, 2010, the School District had \$1,100 in undeposited cash on hand which is included in the fund balance and cash and cash equivalents.

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

At June 30, 2010, the carrying amount of the School District's deposits was \$2,049,322 and the bank balance was \$2,151,950. Of the bank balance, \$775,866 was covered by federal depository insurance and \$1,376,084 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging institution's trust department not in the School District's name.

**B. Investments** - Investments other than STAR Ohio are reported at cost basis. STAR Ohio is reported at the current fair market value.

As of June 30, 2010, the School District had the following investments:

	<b>Value as of 6/30/10</b>	<b>Maturities 0 – 1 Year</b>	<b>% of Invested Balance</b>
STAROhio	\$491,416	\$491,416	100%

**C. Interest Rate Risk**

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

**MARION LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
(Continued)**

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

**D. Credit Risk**

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The School District has no investment policy dealing with investment custodial risk beyond the requirement of ORC 135.14(M)(2) which states, "Payments for investments shall be made only upon the delivery of securities representing such investments to the treasurer, investing authority, or qualified trustee. If the securities transferred are not represented by a certificate, payment shall be made only upon receipt of confirmation of transfer from custodian by the treasurer, governing board, or qualified trustee."

The School District has no investment policy dealing with investment credit risk beyond the requirements of State statute. The School District's investments held at fiscal year-end in STAR Ohio is rated AAA by Standard & Poor's.

**E. Concentration Risk**

The School District places no limit on the amount the district may invest in any one issuer, however State statute limits investments in commercial paper and bankers' acceptances to 25 percent of the interim monies available for investment at any one time. At June 30, 2010, the School District's total investment portfolio was invested in STAR Ohio.

**6. PROPERTY TAXES**

House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phases out the tax on tangible personal property of general businesses, telephone and telecommunications companies, and railroads. The tax on general business and railroad property was eliminated in calendar year 2009, and tax on telephone and telecommunications property will be eliminated by calendar year 2011. The tax is phased out by reducing the assessment rate on the property each year. The bill replaces the revenue lost by the District due to phasing out of the tax. In calendar years through 2010, the School District will be fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements will be phased out.

Property taxes are levied and assessed on a calendar year basis, while the School District's fiscal year runs from July through June. First-half tax distributions are received by the School District in the second half of the fiscal year. Second-half distributions occur in a new fiscal year. Property taxes include amounts levied against all real, public utility, and tangible personal (used in business) property located in the School District.

Real property tax receipts received in calendar years 2010 represent the collection of calendar year 2009 taxes. Real property taxes received in calendar year 2010 were levied after April 1, 2009 on the assessed values as of January 1, 2009 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.

**MARION LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
(Continued)**

**6. PROPERTY TAXES (Continued)**

Public utility property tax receipts received in calendar years 2010 represent the collection of calendar year 2009 taxes. Public utility real and tangible personal property taxes received in calendar year 2010 became a lien on December 31, 2008, and were levied after April 1, 2009 and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax revenues received in calendar year 2010 (other than public utility property) represent the collection of calendar year 2010 taxes levied against local and inter-exchange telephone companies. Tangible personal property tax on business inventory, manufacturing machinery and equipment, and furniture and fixtures is no longer levied and collected. The October 2008 tangible personal property tax settlement was the last property tax settlement for general personal property taxes. Tangible personal property taxes received from telephone companies in calendar year 2010 were levied after October 1, 2009, on the value as of December 31, 2009.

Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District receives property taxes from Auglaize, Darke, and Mercer Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the counties by June 30, 2010, are available to finance fiscal year 2010 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

The assessed values upon which fiscal year 2010 taxes were collected are:

	<b>2009 Second Half Collections</b>		<b>2010 First Half Collections</b>	
	<b>Amount</b>	<b>Percent</b>	<b>Amount</b>	<b>Percent</b>
Agricultural/Residential and Other Real Estate	\$75,685,560	97.86%	\$76,933,480	99.59%
Public Utility	1,661,210	2.14%	319,320	.41%
Tangible Personal Property				
Total Assessed Value	<u>\$77,346,770</u>	<u>100.00%</u>	<u>\$77,252,800</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$40.25		\$40.25	

**7. RISK MANAGEMENT**

**A. Property and Liability**

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2010, the School District contracted with Ohio Casualty for the following insurance coverage:



**MARION LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
(Continued)**

**7. RISK MANAGEMENT (Continued)**

Coverage provided by Ohio Casualty is as follows:	
Buildings and Contents – replacement cost	\$ 24,731,595
Coverage provided by Indiana Insurance is as follows:	
General Liability	
Per Occurrence	1,000,000
Aggregate	2,000,000
Coverage provided by Mid-American Fire & Casualty is as follows:	
Automobile Liability	1,000,000
Uninsured Motorists	1,000,000

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

**B. Workers' Compensation**

The School District participates in the Ohio Association of School Business Officials Workers' Compensation Group Rating Plan (the "Plan"), an insurance purchasing pool. The intent of the Plan is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the Plan. The third party administrator, Sheakley Uniservice, Inc., reviews each participant's claims experience and determines the rating tier for that participant.

A common premium rate is applied to all participants in a given rating tier. Each participant pays its workers' compensation premium to the State based on the rate for their rating tier rather than its individual rate. Sheakley Uniservice, Inc. provides administrative, cost control and actuarial services to the Plan.

**C. Health Care Benefits**

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

**8. DEFINED BENEFIT PENSION PLANS**

**A. State Teachers Retirement System**

**Plan Description** - The School District contributes to the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing multiple employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to the State Teachers Retirement System of Ohio, 275 East Broad Street, Columbus, Ohio 43215-3771, by calling toll-free 1-888-227-7877, or by visiting the STRS Ohio Web site at [www.strsoh.org](http://www.strsoh.org).

**MARION LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
(Continued)**

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

New members have a choice of three retirement plans, a Defined Benefit Plan (DBP), a Defined Contribution Plan (DCP), and a Combined Plan (CP). The DBP offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service or on an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DCP allows members to place 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 member may elect to receive a lifetime monthly annuity or a lump sum withdrawal.

The CP offers features of both the DBP and the DCP plans. In the CP, member contributions are invested by the member and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DBP. The DBP portion of the CP payment is payable to a member on or after age sixty; the DCP portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age fifty. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

**Funding Policy** – For the fiscal year ended June 30, 2010, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the STRS Ohio Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employer. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to the STRS Ohio for the fiscal years ended June 30, 2010, 2009 and 2008 were \$486,252, \$475,310 and \$467,254, respectively; 83 percent has been contributed for fiscal year 2010 and 100 percent for the fiscal years 2009 and 2008. Contributions to the DCP and CP for fiscal year 2010 were \$5,322 made by the School District and \$7,451 made by the plan members.

**B. School Employees Retirement System**

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

**MARION LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
(Continued)**

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

**Funding Policy** – For fiscal year ended June 30, 2010, plan members were required to contribute 10 percent of their annual covered salary and the School District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund) of the System. For fiscal year 2010, it was determined the employer contribution rate to pension and death benefits to be 12.78 percent. The remaining 1.22 percent of the 14 percent employer contribution rate was allocated to the Health Care and Medicare B Funds. The contribution requirements of plan members and employers are established and may be amended by the SERS Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's pension contributions to SERS for the years ended June 30, 2010, 2009 and 2008 were \$101,814, \$63,613 and \$67,219, respectively. The School District has paid all contributions required through fiscal year 2010.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2010, all members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid.

**9. POST-EMPLOYMENT BENEFITS**

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

**A. State Teachers Retirement System of Ohio**

**Plan Description** - The School District contributes to a cost-sharing multiple-employer defined benefit Health Care Plan administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the Defined Benefit or Combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs, and reimbursement of monthly Medicare Part B premiums. The Plan is included in STRS Ohio's financial report which may be obtained by calling (888) 227-7877 or by visiting the STRS Ohio Web site at [www.strsoh.org](http://www.strsoh.org).

**MARION LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
(Continued)**

**9. POST-EMPLOYMENT BENEFITS (Continued)**

**Funding Policy** - All STRS Ohio retirees who participated in the DBP or CP and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the 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. Of the 14 percent employer contribution rate, one percent of covered payroll was allocated to post-employment health care for the years ended June 30, 2010, 2009 and 2008. The 14 percent employer contribution rate is the maximum rate established under Ohio law.

The School District's contributions for post employment health care for fiscal years ended June 30, 2010, 2009 and 2008 were \$37,404, \$36,922 and \$36,285, respectively; 83 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

**B. School Employees Retirement System**

**Plan Description** - The School District contributes to two cost-sharing multiple-employer defined benefit OPEB plans administered by the School Employees Retirement System (SERS) for classified retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians fees through several types of plans including HMO's, PPO's, and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by SERS based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on SERS' website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

**Funding Policy** - State statute permits SERS to fund the health care benefits through employer contributions. Each fiscal year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For fiscal year 2010, .46 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount. For fiscal year 2010, the surcharge amount was \$46,970.

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility, and retirement status.

The School District's contributions assigned to health care fund for the fiscal years ended June 30, 2010, 2009, and 2008 were \$14,849, \$29,112 and \$30,674, respectively. The School District has paid all contributions required through fiscal year 2010.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare Part B Fund. For fiscal year 2010, this actuarially required allocation was .76 percent of covered payroll. The School District's contributions for the fiscal years ended June 30, 2010, 2009 and 2008 were \$6,055, \$5,249 and \$4,843, respectively, which equaled the required contributions each year.

**MARION LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
(Continued)**

**10. LONG-TERM OBLIGATIONS**

The changes in the School District's long-term obligations during fiscal year 2010 were as follows:

<b>General Long-Term Obligations</b>	<b>Interest Rate</b>	<b>Outstanding 6/30/09</b>	<b>Additions</b>	<b>Deductions</b>	<b>Outstanding 6/30/10</b>	<b>Due Within 1 Year</b>
General Obligation Bonds						
2006 Refunding Bonds						
Serial and Term Bonds	4.0-4.13%	\$1,995,000		\$170,000	\$1,825,000	\$165,000
Capital Appreciation Bonds	4.3-4.35%	349,995			349,995	
Capital Bonds Accretion		101,308	\$42,250		143,558	
2000 School Improvement						
Serial Bonds	4.4-5.75%	120,000		60,000	60,000	60,000
Capital Appreciation Bonds	12.20%	40,589			40,589	
Capital Bonds Accretion		80,104	15,173		95,277	
1993 Asbestos Removal Loan	0.00%	15,301		10,994	4,307	4,307
HB 264 Energy Project Note	4.21%	398,830		26,590	372,240	26,590
<b>Total General Obligation Debt</b>		<b>\$3,101,127</b>	<b>\$57,423</b>	<b>\$267,584</b>	<b>\$2,890,966</b>	<b>\$255,897</b>

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

The term bonds maturing on December 1, 2010 are subject to mandatory sinking fund redemption, at a redemption price equal to 100 percent of the principal amount redeemed plus accrued interest to the date of redemption on December 1, 2009. Unless previously redeemed, the remaining principal amount of the bonds (\$165,000) is to be paid at stated maturity on December 1, 2010.

The term bonds maturing on December 1, 2022 are subject to mandatory sinking fund redemption, at a redemption price equal to 100 percent of the principal amount redeemed plus accrued interest to the date of redemption on December 1, 2020 and each December 1 thereafter. Unless previously redeemed, the remaining principal amount of the bonds (\$100,000) is to be paid at stated maturity on December 1, 2022.

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

The capital appreciation bonds will mature in fiscal years 2015 through 2017 and are not subject to redemption prior to maturity. The maturity amount of the bonds is \$800,000. For fiscal year 2010, \$42,250 was accreted for a total capital appreciation bond value of \$493,553.

**2000 School Improvement General Obligation Bonds** - On April 7, 2000, the School District issued \$1,265,589 in voted general obligation bonds for improvements to buildings and structures. The bond issue included serial, term, and capital appreciation bonds, in the amount of \$495,000, \$730,000 and \$40,589, respectively. The Term bonds in the amount of \$730,000 were refunded with the 2006 bond issue. The bonds are being retired from the Bond Retirement debt service fund.

The capital appreciation bonds will mature in fiscal years 2011 through 2013 and are not subject to redemption prior to maturity. The maturity amount of the bonds is \$180,000. For fiscal year 2010, \$15,173 was accreted for total bond value of \$135,866.

**MARION LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
(Continued)**

**10. LONG-TERM OBLIGATIONS (Continued)**

**1993 Asbestos Removal Loan** - On January 7, 1993, the School District obtained an interest free loan for asbestos removal. The loan was issued for a seventeen year period, with final maturity during fiscal year 2011. The loan is being retired from the Bond Retirement debt service fund.

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

The School District’s overall debt margin was \$4,755,813 with an unvoted debt margin of \$77,253 at June 30, 2010.

Principal and interest requirements to retire general obligation debt outstanding at June 30, 2010, are as follows:

Fiscal Year Ending June 30,	2000 General Obligation Bonds		2006 Refunding Bonds		1993 Asbestos Removal Loan	HB 264	Interest / Accretion	Total
	Serial and Term Bonds	Capital Appreciation Bonds	Serial and Term Bonds	Capital Appreciation Bonds				
2011	\$60,000		\$ 165,000		\$4,307	\$ 26,590	\$ 87,008	\$ 342,905
2012		\$15,160	175,000			26,590	122,407	339,157
2013		13,466	185,000			26,590	115,743	340,799
2014		11,963	190,000			26,590	108,627	337,180
2015				\$128,587		26,590	152,327	307,504
2016–2020			825,000	221,408		132,950	431,581	1,610,939
2021–2024			285,000			106,340	28,123	419,463
	\$60,000	\$40,589	\$1,825,000	\$349,995	\$4,307	\$372,240	\$1,045,816	\$3,697,947

**11. STATUTORY RESERVES**

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

The following cash basis information identifies the changes in the fund balance reserves for textbooks and capital improvements during fiscal year 2010:

**MARION LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
(Continued)**

**11. STATUTORY RESERVES**

	<b>Textbook Reserve</b>	<b>Capital Maintenance Reserve</b>
Set-Aside Balance, 6/30/2009	\$248,502	
Required Set-Aside	146,670	\$146,670
Current Year Offsets		(119,380)
Qualifying Disbursements	(224,003)	(27,290)
Total	\$171,169	\$ 0
Set-Aside balance carried forward to FY 2011	\$171,169	

**12. JOINTLY GOVERNED ORGANIZATIONS**

**Northwest Ohio Area Computer Services Cooperative** - The School District is a participant in the Northwest Ohio Area Computer Services Cooperative ("NOACSC"), which is a computer consortium. NOACSC is an association of public school districts within the boundaries of Allen, Hancock, Mercer, Paulding, Putnam, and Van Wert Counties, and the Cities of St. Mary's and Wapakoneta. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of NOACSC consists of two representatives from each county elected by majority vote of all charter member school districts within each county. During fiscal year 2010, the School District paid \$13,200 to NOACSC for various services. Financial information can be obtained from Raymond Burden, who serves as Director, 645 South Main Street, Lima, Ohio 45804.

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

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

**MARION LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
(Continued)**

**13. GROUP PURCHASING POOL**

**OASBO/Sheakley Workers' Compensation Group Rating Plan** - The School District participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The OASBO Workers' Compensation Group Rating Plan (Plan) was established through the Ohio Association of School Business Officials as an insurance purchasing pool. The Plan's business and affairs are conducted by a five member OASBO Board of Directors. Each year, the participants pay an enrollment fee to the Plan to cover the costs of administering the program.

**Mercer Auglaize Employee Benefit Trust** - The Mercer Auglaize Employee Benefit Trust (Trust) is a public entity shared risk pool consisting of eleven local school districts and two educational service centers. The Trust is organized as a Voluntary Employee Benefit Association under Section 501(c)(9) of the Internal Revenue Code and provides medical, prescription drug, and dental benefits to the employees of the participants. Each participant's superintendent is appointed to an Administrative Committee which advises the Trustee, Sky Bank, concerning aspects of the administration of the Trust. Each participant decides which plans offered by the Administrative Committee will be extended to its employees.

Participation in the Trust is by written application subject to acceptance by the Administrative Committee and payment of the monthly premiums. Financial information can be obtained from Jim Mauntler; JM Consulting, 3547 Beechway Blvd., Toledo, Ohio 43614.

**14. INTERFUND ACTIVITY**

During fiscal year 2010, the School District made transfers between funds as follows:

	<u>Transfers-In</u>	<u>Transfers-Out</u>
<b>Governmental:</b>		
General Fund		\$ 45,853
Bond Retirement Fund	\$ 44,000	
OSFC Permanent		
Improvement Maintenance	99,952	
Fund		
All Other Governmental Funds	45,853	143,952
<b>Total</b>	<b>\$189,805</b>	<b>\$189,805</b>

Transfers were made by the General Fund to move unrestricted balances to the Termination Benefits Fund to cover obligations. Transfers were made by Permanent Improvement Fund to Debt Service Fund for repayment of debt obligations, and by the OSFC Classroom Facilities Project Fund to the OSFC Permanent Improvements Maintenance Fund due to closure of OSFC project.

**15. LEASES**

The School District is obligated under an operating lease agreement with Perry Corporation for printers. This agreement does not give rise to property rights. The lease is for a term of 63 months at \$455.52 per month and began October 2007. During fiscal year 2010, \$5,466 was paid toward the lease.



**MARION LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010  
(Continued)**

**16. CONTRACTUAL COMMITMENTS**

At June 30, 2010, the School District had the following outstanding contractual commitments:

<u>Contractor/Vendor</u>	<u>Description</u>	<u>Contractual Commitment</u>	<u>Remaining Balance</u>
St. Henry School District	Cognitive Disabilities Class	\$20,515	\$20,515

**17. CONTINGENCIES**

**A. Grants**

The School District received financial assistance from 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 is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds.

However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2010.

**B. Litigation**

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

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**MARION LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

<b>Federal Grantor/ Pass Through Grantor Program Title</b>	<b>Federal CFDA Number</b>	<b>Receipts</b>	<b>Non-Cash Receipts</b>	<b>Expenditures</b>	<b>Non-Cash Expenditures</b>
<b>U.S. DEPARTMENT OF AGRICULTURE</b>					
(Passed through Ohio Department of Education)					
Non-Cash Assistance (Food Distribution):					
National School Lunch Program	10.555		\$31,721		\$31,721
Cash Assistance					
National School Lunch Program	10.555	45,836		45,836	
Total National School Lunch Program		45,836	31,721	45,836	31,721
Total U.S. Department of Agriculture		45,836	31,721	45,836	31,721
<b>U.S. DEPARTMENT OF EDUCATION</b>					
(Passed through Ohio Department of Education)					
Title I Grants to Local Educational Agencies	84.010	24,740		24,740	
Safe and Drug Free Schools	84.186	1,638		1,638	
Education Technology State Grants	84.318	222		222	
Improving Teacher Quality State Grants	84.367	19,787		19,787	
<b>ARRA</b> Special Education Grants to States	84.391	129,040		120,310	
<b>ARRA</b> State Fiscal Stabilization Fund (SFSF)	84.394	280,411		280,411	
Total U.S. Department of Education		455,838		447,108	
Total Federal Assistance		\$501,674	\$31,721	\$492,944	\$31,721

*See accompanying notes to the schedule of federal awards receipts and expenditures.*

**MARION LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Schedule of Federal Awards Receipts and Expenditures (the Schedule) reports the Marion Local School District's (the School District) federal award programs receipts and disbursements. The schedule has been prepared on the cash basis of accounting.

**NOTE B - CHILD NUTRITION CLUSTER**

The School District commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the School District assumes it expends federal monies first.

**NOTE C – FOOD DONATION PROGRAM**

The School District reports commodities consumed on the Schedule at fair value. The School District allocated donated food commodities to the respective program that benefitted from the use of those donated food commodities.



# Mary Taylor, CPA

Auditor of State

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Marion Local School District, Mercer County (the School District), as of and for the fiscal year ended June 30, 2010, which collectively comprise the School District's basic financial statements and have issued our report thereon dated October 20, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

### Internal Control Over Financial Reporting

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

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

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

### **Compliance and Other Matters**

As part of reasonably assuring whether the School District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matter we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2010-001.

We also noted certain matters not requiring inclusion in this report that we reported to the School District's management in a separate letter dated October 20, 2010.

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

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



**Mary Taylor, CPA**  
Auditor of State

October 20, 2010



# Mary Taylor, CPA

## Auditor of State

### INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

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

To the Board of Education:

#### Compliance

We have audited the compliance of Marion Local School District, Mercer County (the School District), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect its major federal program for the fiscal year ended June 30, 2010. The summary of auditor's results section of the accompanying schedule of findings identifies the School District's major federal program. The School District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; 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 reasonably assure whether noncompliance occurred with the compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the School District's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the School District's compliance with those requirements.

In our opinion, the Marion Local School District, Mercer County, complied, in all material respects, with the requirements referred to above that could directly and materially affect its major federal program for the fiscal year ended June 30, 2010.

#### Internal Control Over Compliance

The School District's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the School District's internal control over compliance with requirements that could directly and materially affect a major federal program to determine our auditing procedures for the purpose of opining on compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the School District's internal control over compliance.

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**Internal Control Over Compliance  
(Continued)**

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected.

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

We noted a matter involving federal compliance or internal control over federal compliance not requiring inclusion in this report, that we reported to the School District's management in a separate letter dated October 20, 2010.

We intend this report solely for the information and use of the audit committee, management, Board of Education, others within the School District, federal awarding agencies, pass-through entities, and others within the School District. It is not intended for anyone other than these specified parties.



**Mary Taylor, CPA**  
Auditor of State

October 20, 2010



**MARION LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2010**

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

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
(d)(1)(iv)	Were there any significant deficiencies in internal control 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)?	No
(d)(1)(vii)	Major Programs (list):	<b>ARRA</b> State Fiscal Stabilization Fund (SFSF) CFDA# 84.394
(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 2010-001**

**Noncompliance Citation**

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

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

To help provide the users with more meaningful financial statements, the School District County should prepare their financial statements according to generally accepted accounting principles.

**OFFICIAL'S RESPONSE:**

The Board of Education and Treasurer feel the School District meets the alternative requirements of financial reporting by the compilation and filing of the OCBOA statements. This method seems to be a Government Accounting Standards Board approved alternative to GAAP. While admitting that Ohio Administrative Code requires the School District to file our financial reports on a GAAP basis, the School District believes that the cost savings associated with compiling and auditing the OCBOA report far outweigh any benefit the School District may obtain by filing the GAAP report. In prior years we prepared GAAP, no one has ever asked to see the report, nor has any financial institution ever asked us to forward the GAAP statement to them in order to complete any sort of bond or financial transaction.

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

None

**MARION LOCAL SCHOOL DISTRICT  
MERCER COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
JUNE 30, 2010**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2009-001	Ohio Rev. Code Section 117.38 and Ohio Admin. Code Section 117-2-03 (B) – Failure to prepare and file GAAP basis annual financial statements.	No	Repeated as finding 2010-001

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**Mary Taylor, CPA**  
Auditor of State

**MARION LOCAL SCHOOL DISTRICT**

**MERCER COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
NOVEMBER 16, 2010**