



Dave Yost • Auditor of State

**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Marion City School District
Marion County
420 Presidential Dr. Suite B
Marion, Ohio 43302

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Marion City School District, Marion County, Ohio (the District), as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Marion City School District, Marion County, Ohio, as of June 30, 2011, and the respective changes in financial position and where applicable, cash flows, thereof and the budgetary comparison for the General fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended June 30, 2011, the District adopted the provisions of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 16, 2012, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements taken as a whole. The federal awards receipts and expenditures schedule provides additional information required by the 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. The federal awards receipts and expenditures schedule is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This schedule was subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Dave Yost
Auditor of State

August 16, 2012

**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
UNAUDITED**

The discussion and analysis of Marion City School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2011. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the basic financial statements and notes to enhance their understanding of the School District's financial performance.

Highlights

Highlights for fiscal year 2011 are as follows:

Net assets for governmental activities decreased \$697,190 from the prior fiscal year, or less than 1 percent. Net assets for business-type activities decreased \$75,866, also less than 1 percent.

General revenues were \$40,537,581 or 74 percent of all governmental activities revenues. This reflects the School District's significant dependence on property taxes and unrestricted State entitlements.

For business-type activities, almost 100 percent of total revenues were generated by the programs.

Using the Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand Marion City School District as an entire operating entity.

The statement of net assets and the statement of activities provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances.

Fund financial statements provide a greater 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 nonmajor funds presented in total in a single column. For Marion City School District, the General Fund and the Food Service enterprise fund are the most significant funds.

Reporting the School District as a Whole

The statement of net assets and the statement of activities reflect how the School District did financially during fiscal year 2011. These statements include all assets and liabilities using the accrual basis of accounting similar to that which is used by most private-sector companies. This basis of accounting considers all of the current fiscal years' revenues and expenses regardless of when cash is received or paid.

**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
UNAUDITED
(Continued)**

These 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 whether the financial position of the School District as a whole has increased or decreased from the prior fiscal year. Over time, these increases and/or decreases are one indicator of whether the financial position is improving or deteriorating. Causes for these changes may be the result of many factors, some financial, some not. Nonfinancial factors include the School District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs, and other factors.

In the statement of net assets and the statement of activities, the School District discloses two types of activities:

Governmental Activities - Most of the School District's programs and services are reported here including instruction, support services, non-instructional services, and extracurricular activities. These services are primarily funded by property tax revenues and from intergovernmental revenues, including federal and state grants and other shared revenues.

Business-Type Activities - These services are provided on a charge for goods or services basis to recover all of the expenses of the goods or services provided. The Food Service, Uniform School Supplies, and Adult Education funds are reported as business-type activities.

Reporting the School District's Most Significant Funds

Fund financial statements provide detailed information about the School District's major funds. While the School District uses many funds to account for its financial transactions, the fund financial statements focus on the School District's most significant funds. The School District's major funds are the General Fund and the Food Service enterprise fund.

Governmental Funds - The School District's governmental funds are used to account for the same programs reported as governmental activities on the government-wide financial statements. The School District's basic services are reported in these funds and focus on how money flows into and out of the funds as well as the balances available for spending at fiscal year end. These funds are reported using the modified accrual basis of accounting which measures cash and all other financial assets that can be readily converted to cash. The governmental fund financial statements provide a detailed short-term view of the School District's operations.

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities on the government-wide financial statements. By doing so, readers may better understand the long-term impact of the School District's short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to help make this comparison between governmental funds and governmental activities.

Enterprise Funds - Enterprise funds use the same basis of accounting as business-type activities; therefore, these statements are essentially the same.

**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
UNAUDITED
(Continued)**

Fiduciary Funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the School District. Fiduciary funds are not reflected on the government-wide financial statements because the resources from these funds are not available to support the School District's programs. These funds use the accrual basis of accounting.

The School District as a Whole

Table 1 provides a summary of the School District's net assets for fiscal year 2011 and fiscal year 2010:

Table 1
Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
<u>Assets</u>						
Current and Other Assets	\$33,116,846	\$33,067,176	\$768,921	\$737,358	\$33,885,767	\$33,804,534
Capital Assets, Net	79,788,118	81,443,263	7,404,313	7,576,336	87,192,431	89,019,599
Total Assets	<u>112,904,964</u>	<u>114,510,439</u>	<u>8,173,234</u>	<u>8,313,694</u>	<u>121,078,198</u>	<u>122,824,133</u>
<u>Liabilities</u>						
Current and Other Liabilities	11,960,487	12,500,588	151,516	214,235	12,112,003	12,714,823
Long-Term Liabilities	15,097,862	15,466,046	57,938	59,813	15,155,800	15,525,859
Total Liabilities	<u>27,058,349</u>	<u>27,966,634</u>	<u>209,454</u>	<u>274,048</u>	<u>27,267,803</u>	<u>28,240,682</u>
<u>Net Assets</u>						
Invested in Capital Assets, Net of Related Debt	69,932,858	70,927,087	7,404,313	7,576,336	77,337,171	78,503,423
Restricted	5,757,300	5,662,412	0	0	5,757,300	5,662,412
Unrestricted	10,156,457	9,954,306	559,467	463,310	10,715,924	10,417,616
Total Net Assets	<u>\$85,846,615</u>	<u>\$86,543,805</u>	<u>\$7,963,780</u>	<u>\$8,039,646</u>	<u>\$93,810,395</u>	<u>\$94,583,451</u>

A review of the above table demonstrates that for governmental activities, the change in net assets was not significant (less than 1 percent) and there were no changes of note within assets, liabilities, or net assets.

The change in total net assets for business-type activities was also not significant.

**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
UNAUDITED
(Continued)**

Table 2 reflects the change in net assets for fiscal year 2011 and fiscal year 2010.

Table 2
Change in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
<u>Revenues</u>						
Program Revenues						
Charges for Services	\$2,837,681	\$2,791,759	\$364,585	\$444,696	\$3,202,266	\$3,236,455
Operating Grants, Contributions, and Interest	11,484,322	12,472,406	1,780,951	1,909,305	13,265,273	14,381,711
Capital Grants and Contributions	0	0	0	10,000	0	10,000
Total Program Revenues	14,322,003	15,264,165	2,145,536	2,364,001	16,467,539	17,628,166
General Revenues						
Property Taxes Levied for General Purposes	8,165,752	8,527,602	0	0	8,165,752	8,527,602
Property Taxes Levied for Classroom Facilities Purposes	124,013	130,729	0	0	124,013	130,729
Property Taxes Levied for Debt Service Purposes	955,035	1,062,293	0	0	955,035	1,062,293
Payment in Lieu of Taxes	93,519	92,433	0	0	93,519	92,433
Grants and Entitlements	30,756,194	30,605,538	0	0	30,756,194	30,605,538
Interest	128,428	206,697	0	0	128,428	206,697
Gifts and Donations	1,837	4,344	0	0	1,837	4,344
Miscellaneous	312,803	371,164	12,943	11,986	325,746	383,150
Total General Revenues	40,537,581	41,000,800	12,943	11,986	40,550,524	41,012,786
Total Revenues	54,859,584	56,264,965	2,158,479	2,375,987	57,018,063	58,640,952
<u>Expenses</u>						
Instruction:						
Regular	26,821,026	26,350,238	0	0	26,821,026	26,350,238
Special	7,636,682	7,103,772	0	0	7,636,682	7,103,772
Vocational	426,442	591,644	0	0	426,442	591,644
Adult/Continuing	23,961	27,321	0	0	23,961	27,321
Support Services:						
Pupils	2,488,911	2,405,072	0	0	2,488,911	2,405,072
Instructional Staff	4,003,919	4,491,472	0	0	4,003,919	4,491,472
Board of Education	35,774	40,943	0	0	35,774	40,943
Administration	3,666,691	3,456,652	0	0	3,666,691	3,456,652
Fiscal	699,626	722,311	0	0	699,626	722,311
Business	432,273	407,523	0	0	432,273	407,523
Operation of Maintenance of Plant	4,309,276	4,270,490	0	0	4,309,276	4,270,490
Pupil Transportation	983,400	999,722	0	0	983,400	999,722
Central	4,688	0	0	0	4,688	0
Non-Instructional Services	2,473,706	2,310,519	0	0	2,473,706	2,310,519
Extracurricular Activities	932,546	926,220	0	0	932,546	926,220
Interest and Fiscal Charges	617,853	627,564	0	0	617,853	627,564
Food Service	0	0	2,165,585	2,443,747	2,165,585	2,443,747
Uniform School Supplies	0	0	0	1,657	0	1,657
Adult Education	0	0	68,760	98,424	68,760	98,424
Total Expenses	55,556,774	54,731,463	2,234,345	2,543,828	57,791,119	57,275,291

(continued)

**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
UNAUDITED
(Continued)**

Table 2
Change in Net Assets
(continued)

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Increase (Decrease) in Net Assets	(\$697,190)	\$1,533,502	(\$75,866)	(\$167,841)	(\$773,056)	\$1,365,661
Net Assets at Beginning of Year	86,543,805	85,010,303	8,039,646	8,207,487	94,583,451	93,217,790
Net Assets at End of Year	<u>\$85,846,615</u>	<u>\$86,543,805</u>	<u>\$7,963,780</u>	<u>\$8,039,646</u>	<u>\$93,810,395</u>	<u>\$94,583,451</u>

For governmental activities, total revenues decreased a modest 2.5 percent. There was a decrease in program revenues primarily due to the expiration of grant resources from the American Recovery and Reinvestment Act (ARRA). General revenues were fairly consistent with the prior fiscal year. Expenses for governmental activities were also very comparable to fiscal year 2010 (1.5 percent increase overall).

For business-type activities, there was a 9 percent decrease in program revenues; charges for services decreased due to lower food service sales and operating grants and contributions decreased due to less federal food subsidy monies received in fiscal year 2011. Expenses decreased 12 percent, primarily related to food service operations. With lower sales, there was a reduction in purchased services.

Table 3 indicates the total cost of services and the net cost of services for governmental activities. The statement of activities reflects the cost of program services and the charges for services, grants, and contributions offsetting those services. The net cost of services identifies the cost of those services supported by tax revenues and unrestricted state entitlements.

Table 3
Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2011	2010	2011	2010
Instruction:				
Regular	\$26,821,026	\$26,350,238	\$21,139,011	\$22,027,789
Special	7,636,682	7,103,772	(271,673)	(3,110,085)
Vocational	426,442	591,644	271,634	437,989
Adult/Continuing	23,961	27,321	(19,503)	(17,865)
Support Services:				
Pupils	2,488,911	2,405,072	2,488,911	2,405,072
Instructional Staff	4,003,919	4,491,472	4,003,919	4,491,472
Board of Education	35,774	40,943	35,774	40,943
Administration	3,666,691	3,456,652	3,666,691	3,456,652
Fiscal	699,626	722,311	699,626	722,311
Business	432,273	407,523	432,273	407,523
Operation and Maintenance of Plant	4,309,276	4,270,490	4,309,276	4,270,490
Pupil Transportation	983,400	999,722	773,822	785,747
Central	4,688	0	4,688	0
Non-Instructional Services	2,473,706	2,310,519	2,330,175	2,167,828
Extracurricular Activities	932,546	926,220	752,294	753,868
Interest and Fiscal Charges	617,853	627,564	617,853	627,564
Total Expenses	<u>\$55,556,774</u>	<u>\$54,731,463</u>	<u>\$41,234,771</u>	<u>\$39,467,298</u>

**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
UNAUDITED
(Continued)**

For fiscal year 2011, 74 percent of program costs was provided for through general revenues (72 percent in fiscal year 2010) reflecting the School District's significant dependence on tax revenues and unrestricted State entitlements. Three programs, however, received substantial support from program revenues. The special instruction vocational instruction, and adult/continuing programs received grant resources restricted for these activities.

The School District's Funds

The School District's governmental funds are accounted for using the modified accrual basis of accounting. The School District's only major governmental fund is the General Fund which had almost a 5 percent decrease in fund balance. Revenues decreased almost 3 percent (with modest decreases in a number of revenue sources), and expenditures remained very similar to the prior fiscal year.

Business-Type Activities

The School District's major enterprise fund accounts for food service operations. While this fund continues to reflect an operating loss, federal and state subsidies generally make up for much of this difference. However, in fiscal year 2011, net assets decreased less than 1 percent.

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.

For revenues, there was a \$1.7 million decrease from the original budget to the final budget generally due to uncertainty regarding State provided resources. The change from the final budget to actual revenues was not significant. For expenditures, there was a \$1 million increase from the original budget to the final budget, primarily reflected in the regular instruction program; however, note that actual expenditures were ultimately more in line with the original budget amount.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2011, the School District had \$79,788,118 invested in capital assets (net of accumulated depreciation). Additions and disposals were minimal.

Business-type activities had \$7,404,313 invested in capital assets (net of accumulated depreciation). There were no additions or disposals in fiscal year 2011.

For further information regarding the School District's capital assets, refer to Note 10 to the basic financial statements.

**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
UNAUDITED
(Continued)**

Debt

At June 30, 2011, the School District had outstanding general obligation bonds, in the amount of \$11,229,851, and capital leases in the amount of \$123,656. The School District's long-term obligations also include compensated absences. For further information regarding the School District's long-term obligations, refer to Notes 16 to the basic financial statements.

Current Issues

Marion City School District is entering into a very critical period financially as we will be going to the taxpayers for a new emergency levy. The last time the School District received monies from a new tax levy was in 1995.

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 reflect the School District's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Robert Wood, Treasurer, Marion City School District, 910 East Church Street, Marion, Ohio 43302.

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**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

**STATEMENT OF NET ASSETS
JUNE 30, 2011**

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	Marion City Digital Academy	Rushmore Academy
Assets:					
Equity in Pooled Cash and Cash Equivalents	\$ 17,759,151	\$ 696,864	\$ 18,456,015	\$ 488,079	\$ 488,066
Accounts Receivable	612,584	-	612,584	-	-
Accrued Interest Receivable	51,250	-	51,250	-	-
Intergovernmental Receivable	2,650,045	35,520	2,685,565	65,194	213,391
Due from Component Units	69,064	-	69,064	-	-
Prepaid Items	66,993	-	66,993	345	-
Inventory Held for Resale	-	26,859	26,859	-	-
Materials and Supplies Inventory	89,090	9,678	98,768	-	-
Property Taxes Receivable	11,612,373	-	11,612,373	-	-
Payment in Lieu of Taxes Receivable	72,023	-	72,023	-	-
Unamortized Issuance Cost	134,273	-	134,273	-	-
Nondepreciable Capital Assets	1,965,229	151,853	2,117,082	-	-
Depreciable Capital Assets, Net	77,822,889	7,252,460	85,075,349	10,165	160,570
Total Assets	112,904,964	8,173,234	121,078,198	563,783	862,027
Liabilities:					
Accounts Payable	206,695	2,096	208,791	800	9,602
Accrued Wages and Benefits Payable	4,452,477	94,337	4,546,814	23,865	-
Matured Compensated Absences Payable	203,306	-	203,306	-	-
Intergovernmental Payable	1,188,758	55,083	1,243,841	9,399	7,594
Due to Primary Government	-	-	-	1,831	67,233
Separation Benefits Payable	270,000	-	270,000	-	-
Deferred Revenue	5,599,596	-	5,599,596	25,556	5,576
Accrued Interest Payable	39,655	-	39,655	-	-
Long-Term Liabilities:					
Due Within One Year	960,533	13,245	973,778	-	-
Due in More Than One Year	14,137,329	44,693	14,182,022	-	-
Total Liabilities	27,058,349	209,454	27,267,803	61,451	90,005
Net Assets:					
Invested in Capital Assets, Net of Related Debt	69,932,858	7,404,313	77,337,171	10,165	160,570
Restricted For:					
Debt Service	1,166,668	-	1,166,668	-	-
Capital Projects	136,151	-	136,151	-	-
Textbooks	1,443,411	-	1,443,411	-	-
Classroom Facilities Maintenance	936,297	-	936,297	-	-
Education Jobs	1,484,792	-	1,484,792	-	-
Other Purposes	587,264	-	587,264	-	-
Music Education					
Nonexpendable	2,717	-	2,717	-	-
Unrestricted	10,156,457	559,467	10,715,924	492,167	611,452
Total Net Assets	\$ 85,846,615	\$ 7,963,780	\$ 93,810,395	\$ 502,332	\$ 772,022

See Accompanying Notes to Basic Financial Statements

**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

**STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

	Program Revenues		
Expenses	Charges for Services	Operating Grants, Contributions, and Interest	
<u>Governmental Activities:</u>			
Instruction:			
Regular	\$ 26,821,026	\$ 2,669,379	\$ 3,012,636
Special	7,636,682	-	7,908,355
Vocational	426,442	-	154,808
Adult/Continuing	23,961	-	43,464
Support Services:			
Pupils	2,488,911	-	-
Instructional Staff	4,003,919	-	-
Board of Education	35,774	-	-
Administration	3,666,691	-	-
Fiscal	699,626	-	-
Business	432,273	-	-
Operation and Maintenance of Plant	4,309,276	-	-
Pupil Transportation	983,400	-	209,578
Central	4,688	-	-
Non-Instructional Services	2,473,706	-	143,531
Extracurricular Activities	932,546	168,302	11,950
Interest and Fiscal Charges	617,853	-	-
Total Governmental Activities	55,556,774	2,837,681	11,484,322
<u>Business-Type Activities:</u>			
Food Service	2,165,585	330,502	1,780,951
Other Enterprise Funds			
Uniform School Supplies	-	1,838	-
Adult Education	68,760	32,245	-
Total Business-Type Activities	2,234,345	364,585	1,780,951
Total Primary Government	57,791,119	3,202,266	13,265,273
<u>Component Units</u>			
Marion City Digital Academy	956,106	-	111,113
Rushmore Academy	760,614	-	351,424
Total Component Units	\$ 1,716,720	\$ -	\$ 462,537

General Revenues:

Property Taxes Levied for General Purposes
Property Taxes Levied for Classroom Facilities Purposes
Property Taxes Levied for Debt Service Purposes
Payment in Lieu of Taxes
Grants and Entitlements not Restricted to Specific Programs
Interest
Gifts and Donations
Miscellaneous
Total General Revenues

Change in Net Assets

Net Assets at Beginning of Year - Restated (See Note 3)
Net Assets at End of Year

See Accompanying Notes to the Basic Financial Statements

Net (Expense) Revenue
and Change in Net Assets

Primary Government			Component Units	
Governmental Activities	Business-Type Activities	Total	Marion City Digital Academy	Rushmore Academy
\$ (21,139,011)	\$ -	\$ (21,139,011)	\$ -	\$ -
271,673	-	271,673	-	-
(271,634)	-	(271,634)	-	-
19,503	-	19,503	-	-
(2,488,911)	-	(2,488,911)	-	-
(4,003,919)	-	(4,003,919)	-	-
(35,774)	-	(35,774)	-	-
(3,666,691)	-	(3,666,691)	-	-
(699,626)	-	(699,626)	-	-
(432,273)	-	(432,273)	-	-
(4,309,276)	-	(4,309,276)	-	-
(773,822)	-	(773,822)	-	-
(4,688)	-	(4,688)	-	-
(2,330,175)	-	(2,330,175)	-	-
(752,294)	-	(752,294)	-	-
(617,853)	-	(617,853)	-	-
<u>(41,234,771)</u>	<u>-</u>	<u>(41,234,771)</u>	<u>-</u>	<u>-</u>
-	(54,132)	(54,132)	-	-
-	1,838	1,838	-	-
<u>-</u>	<u>(36,515)</u>	<u>(36,515)</u>	<u>-</u>	<u>-</u>
<u>-</u>	<u>(88,809)</u>	<u>(88,809)</u>	<u>-</u>	<u>-</u>
<u>(41,234,771)</u>	<u>(88,809)</u>	<u>(41,323,580)</u>	<u>-</u>	<u>-</u>
-	-	-	(844,993)	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(409,190)</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>(844,993)</u>	<u>(409,190)</u>
8,165,752	-	8,165,752	-	-
124,013	-	124,013	-	-
955,035	-	955,035	-	-
93,519	-	93,519	-	-
30,756,194	-	30,756,194	877,916	841,145
128,428	-	128,428	907	-
1,837	-	1,837	-	-
312,803	12,943	325,746	4,450	13,068
<u>40,537,581</u>	<u>12,943</u>	<u>40,550,524</u>	<u>883,273</u>	<u>854,213</u>
(697,190)	(75,866)	(773,056)	38,280	445,023
86,543,805	8,039,646	94,583,451	464,052	326,999
<u>\$ 85,846,615</u>	<u>\$ 7,963,780</u>	<u>\$ 93,810,395</u>	<u>\$ 502,332</u>	<u>\$ 772,022</u>

**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2011**

	General	Other Governmental	Total Governmental Funds
<u>Assets:</u>			
Equity in Pooled Cash and Cash Equivalents	\$ 14,226,597	\$ 2,089,143	\$ 16,315,740
Accounts Receivable	611,084	1,500	612,584
Accrued Interest Receivable	51,250	-	51,250
Interfund Receivable	18,842	-	18,842
Intergovernmental Receivable	61,662	2,588,383	2,650,045
Due from Component Units	69,064	-	69,064
Prepaid Items	66,993	-	66,993
Materials and Supplies Inventory	89,090	-	89,090
<u>Restricted Assets:</u>			
Equity in Pooled Cash and Cash Equivalents	1,443,411	-	1,443,411
Property Taxes Receivable	10,255,808	1,356,565	11,612,373
Payment in Lieu of Taxes Receivable	72,023	-	72,023
Total Assets	26,965,824	6,035,591	33,001,415
<u>Liabilities and Fund Balances:</u>			
<u>Liabilities:</u>			
Accounts Payable	171,967	34,728	206,695
Accrued Wages and Benefits Payable	3,873,152	579,325	4,452,477
Matured Compensated Absences Payable	201,720	1,586	203,306
Interfund Payable	-	18,842	18,842
Intergovernmental Payable	1,071,243	117,515	1,188,758
Deferred Revenue	8,075,053	3,514,721	11,589,774
Total Liabilities	13,393,135	4,266,717	17,659,852
<u>Fund Balances:</u>			
Nonspendable	156,083	2,717	158,800
Restricted	1,443,411	2,237,752	3,681,163
Assigned	512,343	-	512,343
Unassigned (Deficit)	11,460,852	(471,595)	10,989,257
Total Fund Balances	13,572,689	1,768,874	15,341,563
Total Liabilities and Fund Balances	\$ 26,965,824	\$ 6,035,591	\$ 33,001,415

See Accompanying Notes to the Basic Financial Statements

**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2011**

Total Governmental Fund Balances \$ 15,341,563

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. 79,788,118

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

Accounts Receivable	608,006	
Accrued Interest Receivable	31,290	
Intergovernmental Receivable	2,551,294	
Due from Component Unit	67,233	
Property Taxes Receivable	<u>2,732,355</u>	
		5,990,178

Unamortized issuance costs represent deferred charges which do not provide current financial resources and, therefore, are not reported in the funds. 134,273

Accrued interest on outstanding debt is not due and payable in the current period and, therefore, is not reported in the funds; it is reported when due. (39,655)

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

Separation Benefits Payable	(270,000)	
General Obligation Bonds Payable	(11,229,851)	
Compensated Absences Payable	(3,744,355)	
Capital Leases Payable	<u>(123,656)</u>	
		<u>(15,367,862)</u>

Net Assets of Governmental Activities \$ 85,846,615

See Accompanying Notes to the Basic Financial Statements

**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

	General	Other Governmental	Total Governmental Funds
<u>Revenues:</u>			
Property Taxes	\$ 7,753,351	\$ 1,034,250	\$ 8,787,601
Payment in Lieu of Taxes	93,519	-	93,519
Intergovernmental	32,050,298	9,901,590	41,951,888
Interest	111,401	426	111,827
Tuition and Fees	1,746,095	-	1,746,095
Extracurricular Activities	42,539	115,519	158,058
Charges for Services	917,196	-	917,196
Gifts and Donations	1,837	6,610	8,447
Miscellaneous	246,540	150,339	396,879
Total Revenues	<u>42,962,776</u>	<u>11,208,734</u>	<u>54,171,510</u>
<u>Expenditures:</u>			
Current:			
Instruction:			
Regular	23,312,250	2,572,754	25,885,004
Special	4,357,077	3,121,000	7,478,077
Vocational	418,176	-	418,176
Adult/Continuing	13,757	9,888	23,645
Support Services:			
Pupils	2,291,051	181,442	2,472,493
Instructional Staff	1,172,321	2,737,283	3,909,604
Board of Education	35,774	-	35,774
Administration	3,270,377	296,628	3,567,005
Fiscal	659,403	31,460	690,863
Business	427,741	-	427,741
Operation and Maintenance of Plant	3,857,518	334,930	4,192,448
Pupil Transportation	864,696	98,939	963,635
Central	4,688	-	4,688
Non-Instructional Services	2,165,645	308,004	2,473,649
Extracurricular Activities	606,114	181,705	787,819
Capital Outlay	52,858	-	52,858
Debt Service:			
Principal Retirement	28,561	695,000	723,561
Interest and Fiscal Charges	15,483	492,860	508,343
Total Expenditures	<u>43,553,490</u>	<u>11,061,893</u>	<u>54,615,383</u>
Excess of Revenues Over (Under) Expenditures	<u>(590,714)</u>	<u>146,841</u>	<u>(443,873)</u>
<u>Other Financing Sources (Uses):</u>			
Transfers In	-	65,000	65,000
Transfers Out	(65,000)	-	(65,000)
Total Other Financing Sources (Uses)	<u>(65,000)</u>	<u>65,000</u>	<u>-</u>
Changes in Fund Balances	(655,714)	211,841	(443,873)
Fund Balances at Beginning of Year	14,228,403	1,557,033	15,785,436
Fund Balances at End of Year	<u>\$ 13,572,689</u>	<u>\$ 1,768,874</u>	<u>\$ 15,341,563</u>

See Accompanying Notes to the Basic Financial Statements

**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

**RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

Changes in Fund Balances - Total Governmental Funds \$ (443,873)

Amounts reported for governmental activities on the statement of activities are different because of the following:

Governmental funds report capital outlays as expenditures. However, on the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current year:

Capital Outlay - Depreciable Capital Assets	302,470	
Depreciation	<u>(1,948,615)</u>	(1,646,145)

The book value of capital assets is removed from the capital asset account on the statement of net assets when disposed of resulting in a loss on disposal of capital assets on the statement of activities.

(9,000)

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

Property Taxes	457,199	
Intergovernmental	208,182	
Interest	16,605	
Tuition and Fees	(18,422)	
Charges for Services	<u>24,510</u>	688,074

Repayment of principal is an expenditure in the governmental funds but the repayment reduces long-term liabilities on the statement of net assets.

General Obligation Bonds	695,000	
Capital Leases	<u>28,561</u>	723,561

The accounting loss on refunded debt is reported as an expense at the time of refunding but is amortized over the life of the new debt on the statement of activities.

(4,187)

Interest is reported as an expenditure when due in the governmental funds but is accrued on outstanding debt on the statement of net assets. Premiums are reported as revenues when the debt is first issued; however, these amounts are deferred and amortized on the statement of net assets.

Accrued Interest Payable	855	
Annual Accretion on Capital Appreciation Bonds	(110,387)	
Amortization of Premium	<u>5,494</u>	(104,038)

Issuance costs are reported as an expenditure when paid in the governmental funds but are amortized over the life of the debt on the statement of activities.

(1,285)

Some expenses reported on the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:

Separation Benefits Payable	346,000	
Compensated Absences Payable	<u>(246,297)</u>	99,703

Change in Net Assets of Governmental Activities \$ (697,190)

See Accompanying Notes to the Basic Financial Statements

**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET (NON-GAAP BASIS) AND ACTUAL
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
<u>Revenues:</u>				
Property Taxes	\$ 7,868,576	\$ 7,802,071	\$ 7,817,285	\$ 15,214
Payment in Lieu of Taxes	90,000	93,519	93,519	-
Intergovernmental	33,459,739	32,206,734	32,193,377	(13,357)
Interest	175,000	124,252	133,534	9,282
Tuition and Fees	2,043,247	1,745,858	1,745,858	-
Extracurricular Activities	58,000	42,539	42,539	-
Charges for Services	800,000	750,855	833,230	82,375
Gifts and Donations	4,000	837	1,837	1,000
Miscellaneous	49,100	41,630	232,998	191,368
Total Revenues	44,547,662	42,808,295	43,094,177	285,882
<u>Expenditures:</u>				
Current:				
Instruction:				
Regular	22,483,003	25,084,016	23,302,479	1,781,537
Special	4,886,724	4,343,654	4,343,654	-
Vocational	409,289	562,675	562,675	-
Adult/Continuing	12,960	14,397	14,397	-
Support Services:				
Pupils	2,340,973	2,273,083	2,273,083	-
Instructional Staff	1,170,149	1,194,929	1,194,929	-
Board of Education	47,882	36,417	36,417	-
Administration	3,639,880	3,356,583	3,311,462	45,121
Fiscal	704,912	664,030	665,887	(1,857)
Business	437,882	451,660	451,660	-
Operation and Maintenance of Plant	4,988,166	4,156,636	4,156,636	-
Pupil Transportation	1,080,176	969,274	969,274	-
Central	5,000	4,688	4,688	-
Non-Instructional Services	2,021,887	2,165,645	2,165,645	-
Extracurricular Activities	675,029	617,078	617,078	-
Capital Outlay	39,785	63,773	63,773	-
Total Expenditures	44,943,697	45,958,538	44,133,737	1,824,801
Excess of Revenues Under Expenditures	(396,035)	(3,150,243)	(1,039,560)	2,110,683
<u>Other Financing Uses:</u>				
Refund of Prior Year Receipts	-	(30,049)	(30,049)	-
Transfers Out	(90,000)	(65,000)	(65,000)	-
Total Other Financing Uses	(90,000)	(95,049)	(95,049)	-
Changes in Fund Balance	(486,035)	(3,245,292)	(1,134,609)	2,110,683
Fund Balance at Beginning of Year	14,728,473	14,728,473	14,728,473	-
Prior Year Encumbrances Appropriated	1,367,547	1,367,547	1,367,547	-
Fund Balance at End of Year	\$ 15,609,985	\$ 12,850,728	\$ 14,961,411	\$ 2,110,683

See Accompanying Notes to the Basic Financial Statements

**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

**STATEMENT OF FUND NET ASSETS
ENTERPRISE FUNDS
JUNE 30, 2011**

	Food Service	Other Enterprise	Total Enterprise Funds
<u>Assets:</u>			
<u>Current Assets:</u>			
Equity in Pooled Cash and Cash Equivalents	\$ 623,751	\$ 73,113	\$ 696,864
Intergovernmental Receivable	35,520	-	35,520
Inventory Held for Resale	26,859	-	26,859
Materials and Supplies Inventory	9,678	-	9,678
Total Current Assets	695,808	73,113	768,921
 <u>Non-Current Assets:</u>			
Nondepreciable Capital Assets	151,853	-	151,853
Depreciable Capital Assets, Net	7,251,746	714	7,252,460
Total Non-Current Assets	7,403,599	714	7,404,313
Total Assets	8,099,407	73,827	8,173,234
 <u>Liabilities:</u>			
<u>Current Liabilities:</u>			
Accounts Payable	2,096	-	2,096
Accrued Wages and Benefits Payable	94,337	-	94,337
Intergovernmental Payable	54,888	195	55,083
Compensated Absences Payable	13,245	-	13,245
Total Current Liabilities	164,566	195	164,761
 <u>Non-Current Liabilities</u>			
Compensated Absences Payable	44,693	-	44,693
Total Liabilities	209,259	195	209,454
 <u>Net Assets:</u>			
Invested in Capital Assets	7,403,599	714	7,404,313
Unrestricted	486,549	72,918	559,467
Total Net Assets	\$ 7,890,148	\$ 73,632	\$ 7,963,780

See Accompanying Notes to the Basic Financial Statements

**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
ENTERPRISE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

	<u>Food Service</u>	<u>Other Enterprise</u>	<u>Total Enterprise Funds</u>
<u>Operating Revenues:</u>			
Sales	\$ 330,502	\$ 1,838	\$ 332,340
Charges for Services	-	32,245	32,245
Other Operating Revenues	12,943	-	12,943
Total Operating Revenues	<u>343,445</u>	<u>34,083</u>	<u>377,528</u>
<u>Operating Expenses:</u>			
Salaries	590,655	56,407	647,062
Fringe Benefits	247,569	10,075	257,644
Purchased Services	131,079	-	131,079
Materials and Supplies	209,709	1,667	211,376
Cost of Sales	815,161	-	815,161
Depreciation	171,412	611	172,023
Total Operating Expenses	<u>2,165,585</u>	<u>68,760</u>	<u>2,234,345</u>
Operating Loss	<u>(1,822,140)</u>	<u>(34,677)</u>	<u>(1,856,817)</u>
<u>Non-Operating Revenues</u>			
Federal Donated Commodities	59,898	-	59,898
Grants	1,720,497	-	1,720,497
Interest Revenue	556	-	556
Total Non-Operating Revenues	<u>1,780,951</u>	<u>-</u>	<u>1,780,951</u>
Changes in Net Assets	(41,189)	(34,677)	(75,866)
Net Assets at Beginning of Year	7,931,337	108,309	8,039,646
Net Assets at End of Year	<u>\$ 7,890,148</u>	<u>\$ 73,632</u>	<u>\$ 7,963,780</u>

See Accompanying Notes to the Basic Financial Statements

**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

**STATEMENT OF CASH FLOWS
ENTERPRISE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

	Food Service	Other Enterprise	Total Enterprise Funds
<u>Increase (Decrease) in Cash and Cash Equivalents</u>			
<u>Cash Flows from Operating Activities:</u>			
Cash Received from Customers	\$ 330,502	\$ 34,083	\$ 364,585
Cash Received from Other Revenues	12,943	-	12,943
Cash Payments for Salaries	(612,355)	(63,817)	(676,172)
Cash Payments for Fringe Benefits	(277,121)	(13,214)	(290,335)
Cash Payments for Goods and Services	(1,094,049)	(6,112)	(1,100,161)
Net Cash Used for Operating Activities	(1,640,080)	(49,060)	(1,689,140)
<u>Cash Flows from Noncapital Financing Activities:</u>			
Cash Received from Grants	1,902,348	-	1,902,348
<u>Cash Flows from Investing Activities:</u>			
Interest	556	-	556
Net Increase (Decrease) in Cash and Cash Equivalents	262,824	(49,060)	213,764
Cash and Cash Equivalents at Beginning of Year	360,927	122,173	483,100
Cash and Cash Equivalents at End of Year	\$ 623,751	\$ 73,113	\$ 696,864
<u>Reconciliation of Operating Loss to Net Cash Used for Operating Activities:</u>			
Operating Loss	\$ (1,822,140)	\$ (34,677)	\$ (1,856,817)
<u>Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities:</u>			
Depreciation	171,412	611	172,023
Donated Commodities Received During Year	59,898	-	59,898
<u>Changes in Assets and Liabilities:</u>			
Decrease in Inventory Held for Resale	1,385	-	1,385
Increase in Materials and Supplies Inventory	(1,035)	-	(1,035)
Increase (Decrease) in Accounts Payable	1,652	(4,445)	(2,793)
Increase (Decrease) in Accrued Wages and Benefits Payable	1,519	(9,223)	(7,704)
Decrease in Intergovernmental Payable	(30,896)	(1,326)	(32,222)
Decrease in Compensated Absences Payable	(1,875)	-	(1,875)
Decrease in Separation Benefits Payable	(20,000)	-	(20,000)
Net Cash Used for Operating Activities	\$ (1,640,080)	\$ (49,060)	\$ (1,689,140)

Non-Cash Transactions

During fiscal year 2011, the Food Service enterprise fund received donated commodities, in the amount of \$59,898.

See Accompanying Notes to the Basic Financial Statements

**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2011**

	Private Purpose Trust	Agency
<u>Assets:</u>		
Equity in Pooled Cash and Cash Equivalents	\$ 106,003	\$ 29,281
<u>Liabilities:</u>		
Due to Students	-	\$ 29,281
<u>Net Assets:</u>		
Held in Trust for Scholarships	7,560	
Endowments	98,443	
Total Net Assets	\$ 106,003	

See Accompanying Notes to the Basic Financial Statements

MARION CITY SCHOOL DISTRICT
MARION COUNTY

STATEMENT OF CHANGE IN FIDUCIARY NET ASSETS
PRIVATE PURPOSE TRUST FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Private Purpose Trust
<u>Additions:</u>	
Interest	\$ 160
Gifts and Donations	1,000
Total Additions	<u>1,160</u>
 <u>Deductions:</u>	
Non-Instructional Services	<u>3,000</u>
 Change in Net Assets	(1,840)
 Net Assets at Beginning of Year	107,843
Net Assets at End of Year	<u><u>\$ 106,003</u></u>

See Accompanying Notes to the Basic Financial Statements

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**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

Note 1 - Description of the School District and Reporting Entity

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

The School District was established in 1853. The School District serves an area of approximately nine square miles. It is located in Marion County. The School District is the 77th largest in the State of Ohio (among 612 school districts) in terms of enrollment. It is staffed by one hundred sixty-five classified employees, three hundred eighty-nine certified teaching personnel, and thirty-six administrative employees who provide services to 4,811 students and other community members. The School District currently operates six elementary schools, a middle school, and a high school.

Reporting Entity

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

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

The component unit column on the financial statements identifies the financial data of the School District's component units, Marion City Digital Academy (MCDA) and Rushmore Academy (the Academy). They are reported separately to emphasize that they are legally separate from the School District. Information about the component units is presented in Notes 25 and 26 to the basic financial statements.

Marion City Digital Academy - MCDA is a legally separate, not-for-profit corporation. MCDA, under a contractual agreement with the Marion City School District, provides education opportunities through distance learning technologies. Marion City School District is MCDA's sponsoring government and MCDA's five member Board of Directors is appointed by Marion City School District's Board of Education. Marion City School District is financially accountable for MCDA as it appoints MCDA's Board and can impose its will on MCDA. MCDA is reported as a discretely presented component unit on Marion City School District's financial statements. Separately issued financial statements for MCDA can be obtained from the Treasurer of MCDA, 910 East Church Street, Marion, Ohio 43302.

**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

Note 1 - Description of the School District and Reporting Entity (Continued)

Rushmore Academy - The Academy is a legally separate, not-for-profit corporation. The Academy, under a contractual agreement with the Marion City School District, provides education opportunities to high school dropouts, formerly home schooled students, students who have experienced consistent lack of success in traditional high school settings, and other students age sixteen through twenty-one. Marion City School District is the Academy's sponsoring government and the Academy's five member Board of Directors is appointed by Marion City School District's Board of Education. Marion City School District is financially accountable for the Academy as it appoints the Academy's Board and can impose its will on the Academy. The Academy is reported as a discretely presented component unit on Marion City School District's financial statements. Separately issued financial statements for the Academy can be obtained from the Treasurer of the Academy, 910 East Church Street, Marion, Ohio 43302.

The following activity is included within the School District's reporting entity:

Within the School District boundaries, St. Mary's Elementary and Marion Catholic High School are operated as private schools. Current State legislation provides funding to these parochial schools. The monies are received and disbursed on behalf of the parochial schools by the Treasurer of the School District, as directed by the parochial schools. This activity is reflected in a special revenue fund for financial reporting purposes by the School District.

The School District is participates in two jointly governed organizations, one insurance pool, and a related organization. These organizations are the Tri-Rivers Educational Computer Association (TRECA), Tri-Rivers Joint Vocational School, Ohio Association of School Business Officials Workers' Compensation Group Rating Plan, and the Marion Public Library. These organizations are presented in Notes 22, 23, and 24 to the basic financial statements.

Note 2 - Summary of Significant Accounting Policies

The basic financial statements of Marion City School District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental and business-type activities and to its enterprise funds provided they do not conflict with or contradict GASB pronouncements. The School District does not apply Financial Accounting Standards Board (FASB) statements and interpretations issued after November 30, 1989, to its business-type activities or to its enterprise funds. Following are the more significant of the School District's accounting policies.

A. Basis of Presentation

The School District's basic financial statements consist of government-wide financial statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

Note 2 - Summary of Significant Accounting Policies (Continued)

A. Basis of Presentation (Continued)

Government-Wide Financial Statements

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

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

Fund Financial Statements

During the fiscal 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. Fund financial statements are designed to present financial information of the School District at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

B. Fund Accounting

The School District uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The funds of the School District are reported in three categories; governmental, proprietary, and fiduciary.

Governmental Funds

Governmental funds are those through which most governmental functions of the School District are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The School District's only major governmental fund is the General Fund.

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

**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

Note 2 - Summary of Significant Accounting Policies (Continued)

B. Fund Accounting (Continued)

The other governmental funds of the School District account for grants and other resources whose use is restricted, committed, or assigned for a particular purpose.

Proprietary Funds

Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows.

Enterprise Funds - Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The School District has one major enterprise fund.

Food Service - The Food Service enterprise fund accounts for the activities related to food service operations.

The other enterprise funds of the School District account for uniform school supplies and activities related to adult education.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are not available to support the School District's own programs. The School District's private purpose trust fund accounts for programs that provide college scholarships to students after graduation. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's agency funds account for various student-managed activities and payroll withholdings and deductions.

C. Measurement Focus

Government-Wide Financial Statements

The government-wide financial statements are prepared using a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of the School District are included on the statement of net assets. The statement of activities presents increases (e.g. revenues) and decreases (e.g. expenses) in total net assets.

Fund Financial Statements

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The statement of revenues, expenditures, and changes in fund balances reflects the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the fund financial statements for governmental funds.

**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

Note 2 - Summary of Significant Accounting Policies (Continued)

Like the government-wide financial statements, the enterprise funds are accounted for using a flow of economic resources measurement focus. All assets and liabilities associated with the operation of these funds are included on the statement of fund net assets. The statement of revenues, expenses, and changes in fund net assets presents increases (e.g., revenues) and decreases (e.g., expenses) in total net assets. The statement of cash flows reflects how the School District finances and meets the cash flow needs of its enterprise funds.

The private purpose trust fund is accounted for using a flow of economic resources measurement focus.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting; enterprise funds and fiduciary funds use the accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

Revenues - Exchange and Nonexchange Transactions

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

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

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

Deferred Revenues

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

**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

Note 2 - Summary of Significant Accounting Policies (Continued)

D. Basis of Accounting (Continued)

Property taxes for which there was an enforceable legal claim as of June 30, 2011, but which were levied to finance fiscal year 2012 operations, are recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures

On the accrual basis, expenses are recognized at the time they are incurred.

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

E. Budgetary Process

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The alternative tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount the Board of Education may appropriate. The appropriations resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Board. The legal level of budgetary control is at the fund level for all funds. Budgetary allocations at the function and object level within all funds are made by the School District Treasurer.

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

The appropriations resolution is subject to amendment throughout the fiscal year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriations 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.

F. Cash and Investments

To improve cash management, cash received by the School District is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through School District records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents".

**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

Note 2 - Summary of Significant Accounting Policies (Continued)

F. Cash and Investments (Continued)

During fiscal year 2011, the School District invested in nonnegotiable certificates of deposit, federal agency securities, and STAR Ohio. Investments are reported at fair value, except for nonnegotiable certificates of deposit which are reported at cost. Fair value is based on quoted market prices. STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2011.

The School District allocates interest earnings according to State statutes. Interest revenue credited to the General Fund during fiscal year 2011 was \$111,401, which includes \$7,877 assigned from other School District funds.

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.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2011, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is reported in the year in which services are consumed.

H. Inventory

Inventory is presented at cost on a first-in, first-out basis and is expended/expensed when used. Inventory consists of administrative supplies, custodial supplies, donated and purchased food, and workbooks.

I. 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, contributors, grantors, or laws of other governments. Restricted assets represent amounts required by State statute to be set aside for the purchase of textbooks and other instructional materials.

J. Capital Assets

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

**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

Note 2 - Summary of Significant Accounting Policies (Continued)

J. Capital Assets (Continued)

All capital assets are capitalized at cost and updated for additions and reductions during the fiscal year. Donated capital assets are recorded at their fair market value on the date donated. The School District maintains a capitalization threshold of ten thousand dollars. The School District does not have any infrastructure. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Interest incurred during the construction of capital assets by the enterprise funds is also capitalized.

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

<u>Description</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Land Improvements	25 -50 years	n/a
Buildings and Building Improvements	20 - 100 years	25 - 100 years
Furniture, Fixtures, and Equipment	5 - 40 years	10 years
Vehicles	10 - 15 years	n/a

K. Interfund Receivables/Payables

On fund financial statements, receivables and payables resulting from short-term interfund loans are reported as "Interfund Receivables/Payables". Interfund balances are eliminated on the statement of net assets, except for any net residual amounts due between governmental and business-type activities. These amounts are presented as "Internal Balances".

L. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable the School District will compensate the employees for the benefits through paid time off or some other means. The School District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the School District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the School District's termination policy. The School District records a liability for accumulated unused sick leave for all employees after ten years of service.

The entire compensated absences liability is reported on the government-wide financial statements.

On governmental fund financial statements, compensated absences are recognized as a liability and expenditure to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "Matured Compensated Absences Payable" in the fund from which the employees who have accumulated unpaid leave are paid.

**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

Note 2 - Summary of Significant Accounting Policies (Continued)

M. Accrued Liabilities and Long-Term Obligations

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, compensated absences that are paid from governmental funds are reported as liabilities on the fund financial statements only to the extent that they are due for payment during the current fiscal year. Bonds and capital leases are recognized as a liability on the fund financial statements when due.

N. Unamortized Issuance Costs and Premiums

On government-wide financial statements, issuance costs and premiums are deferred and amortized over the term of the bonds using the bonds-outstanding method, which approximates the effective interest method. Issuance costs are recorded as deferred charges and are generally paid from debt proceeds. Bond premiums are presented as an addition to the face amount of bonds payable.

On the governmental fund financial statements, issuance costs and premiums are recognized in the period when the debt is issued.

O. Unamortized Loss on Advance Refunding

For advance refundings resulting in the defeasance of debt, the difference between the reacquisition price and the net carrying amount of the old debt is deferred and amortized as a component of interest expense. This accounting loss is amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter, and is presented as a reduction of the face amount of the new debt.

P. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes include resources restricted for music and athletic programs and for federal and state grants. 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.

**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

Note 2 - Summary of Significant Accounting Policies (Continued)

Q. Fund Balance

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

Nonspendable - The nonspendable classification includes amounts that cannot be spent because they are not in spendable form or legally or contractually required to be maintained intact. The "not in spendable form" includes items that are not expected to be converted to cash.

Restricted - Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or are imposed by law through constitutional provisions.

Committed - The committed classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the Board of Education. The committed amounts cannot be used for any other purpose unless the Board of Education removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned - Amounts in the assigned classification are intended to be used by the School District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds, other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the Board of Education.

Unassigned - Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

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

R. Operating Revenues and Expenses

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

**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

Note 2 - Summary of Significant Accounting Policies (Continued)

S. Interfund Transactions

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

Internal allocations of overhead expenses from one function to another or within the same function are eliminated on the statement of activities. Payments for interfund services provided and used are not eliminated.

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

T. Estimates

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

Note 3 - Changes in Accounting Principles and Restatement of Fund Balance/Net Assets

A. Changes in Accounting Principles

For fiscal year 2011, the School District has implemented Governmental Accounting Standards Board (GASB) Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." GASB Statement No. 54 provides fund balance classifications that can be more consistently applied and clarifies the existing governmental fund type definitions. The requirements of this statement classify fund balance as nonspendable, restricted, committed, assigned, and/or unassigned.

B. Restatement of Fund Balance

The restatement due to the implementation of GASB Statement No. 54 had the following effect on fund balance of the major and nonmajor funds of the School District as they were previously reported.

	General	Other Governmental	Total Governmental Funds
Fund Balance at June 30, 2010	\$14,151,399	\$1,634,037	\$15,785,436
Change in Fund Structure	77,004	(77,004)	0
Adjusted Fund Balance at June 30, 2010	\$14,228,403	\$1,557,033	\$15,785,436

**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

**Note 3 -Changes in Accounting Principles and Restatement of Fund Balance/Net Assets
(Continued)**

C. Restatement of Net Assets

In the prior fiscal year, the School District did not correctly calculate the receivable for payment in lieu of taxes. The restatement had the following effect on net assets.

	Governmental Activities
Net Assets at June 30, 2010	<u>\$86,618,007</u>
Payment in Lieu of Taxes Receivable	<u>(74,202)</u>
Restated Net Assets at June 30, 2010	<u>\$86,543,805</u>

Note 4 - Accountability

At June 30, 2011, the Auxiliary Services, Early Childhood Education, Education Jobs, Race to the Top, Title VI-B, and Title I special revenue funds had deficit fund balances, in the amount of \$1,995, \$30,580, \$25, \$8,428, \$180,110, and \$250,457, respectively, resulting from adjustments for accrued liabilities. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

Note 5 - Budgetary Basis of Accounting

While the School District is reporting financial position, results of operations, and changes in fund balances on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual for the General Fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are as follows:

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

**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

Note 5 - Budgetary Basis of Accounting (Continued)

The adjustments necessary to reconcile the GAAP and budgetary basis statements for the General Fund are as follows:

Changes in Fund Balance	
GAAP Basis	(\$655,714)
<u>Increase (Decrease) Due To:</u>	
Revenue Accruals:	
Accrued FY 2010, Received in Cash FY 2011	3,326,221
Accrued FY 2011, Not Yet Received in Cash	(3,045,838)
Cash Adjustments:	
Unrecorded Cash Activity FY 2010	7,155
Unrecorded Cash Activity FY 2011	(156,154)
Expenditure Accruals:	
Accrued FY 2010, Paid in Cash FY 2011	(5,348,436)
Accrued FY 2011, Not Yet Paid in Cash	5,318,082
Prepaid Items	(2,121)
Materials and Supplies Inventory	(6,519)
Encumbrances Outstanding at Fiscal Year End (Budget Basis)	(571,285)
Budget Basis	<u><u>(\$1,134,609)</u></u>

Note 6 - Deposits and Investments

Monies held by the School District are classified by State statute into three categories.

Active monies are public monies determined to be necessary to meet current demands upon the School District treasury. Active 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.

**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

Note 6 - Deposits and Investments (Continued)

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

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

Interim monies held by the School District may be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2);
7. The State Treasurer's investment pool (STAR Ohio); and
8. Commercial paper and bankers' acceptances if training requirements have been met.

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.

**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

Note 6 - Deposits and Investments (Continued)

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year end, \$9,522,587 of the School District's bank balance of \$17,941,453 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

The School District has no deposit policy for custodial credit risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the School District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least 105 percent of the deposits being secured.

Investments

As of June 30, 2011, the School District had the following investments:

	<u>Fair Value</u>	<u>Maturity</u>
Federal Home Loan Bank Notes	\$1,000,390	12/16/13
STAR Ohio	21,946	average 58.3 days
	<u>\$1,022,336</u>	

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The investment policy restricts the Treasurer from investing in any securities other than those identified in the Ohio Revised Code and that all investments must mature within five years from the date of investment unless they are matched to a specific obligation or debt of the School District.

The Federal Home Loan Bank Notes carry a rating of Aaa by Moody's. STAR Ohio carries a rating of AAA by Standards and Poor's. The School District has no policy regarding credit risk beyond the requirements of State statute. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service.

Note 7 - Receivables

Receivables at June 30, 2011, consisted of accounts (student fees and billings for user charged services), accrued interest, interfund, intergovernmental, amounts due from the component units, property taxes, and payment in lieu of taxes. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. All receivables, except property taxes, are expected to be collected within one year. Property taxes, although ultimately collectible, include some portion of delinquencies that will not be collected within one year.

**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

Note 7 - Receivables (Continued)

A summary of the principal items of intergovernmental receivables follows:

	Amount
Governmental Activities	
General Fund	
United States Treasury	\$41
Marion County	657
Marion Technical College	14,193
Tri-Rivers Career Center	728
River Valley LSD	7,516
Pleasant LSD	8,099
Ridgedale LSD	15,396
Mt. Gilead LSD	15,032
Total General Fund	61,662
Other Governmental Funds	
Miscellaneous Grants	10,778
Classroom Facilities	10
Early Childhood Education	27,816
Education Jobs	1,484,817
Race to the Top	39,601
Title VI-B	135,511
Title I	701,018
Preschool	11,905
Improving Teacher Quality	164,254
Title II-D	12,596
Bond Retirement	77
Total Other Governmental Funds	2,588,383
Total Governmental Activities	\$2,650,045
Business-Type Activities	
Food Service	\$35,520

Note 8 - Property Taxes

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

Property taxes include amounts levied against all real property, public utility property, and tangible personal (used in business) property located in the School District. Real property tax revenues received in calendar year 2011 represent the collection of calendar year 2010 taxes. Real property taxes received in calendar year 2011 were levied after April 1, 2010, on the assessed values as of January 1, 2010, 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 CITY SCHOOL DISTRICT
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

Note 8 - Property Taxes (Continued)

Public utility property tax revenues received in calendar year 2011 represent the collection of calendar year 2010 taxes. Public utility real and tangible personal property taxes received in calendar year 2011 became a lien on December 31, 2009, were levied after April 1, 2010, 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 2011 (other than public utility property) represent the collection of calendar year 2011 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. Tangible personal property taxes received from telephone companies in calendar year 2010 were levied after October 1, 2010, on the value as of December 31, 2010. 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 Marion County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the county by June 30, 2011, are available to finance fiscal year 2011 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents real property, public utility property, and tangible personal property taxes which were measurable as of June 30, 2011, and for which there was an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reflected as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2011, was \$2,959,964 in the General Fund, \$44,688 in the Classroom Facilities special revenue fund, and \$347,793 in the Bond Retirement debt service fund. The amount available as an advance at June 30, 2010, was \$3,023,898 in the General Fund, \$44,950 in the Classroom Facilities special revenue fund, and \$368,162 in the Bond Retirement debt service fund.

Collectible delinquent property taxes have been recorded as a receivable and revenue on a full accrual basis. On a modified accrual basis, the revenue has been deferred.

The assessed values upon which fiscal year 2011 taxes were collected are:

	2010 Second- Half Collections		2011 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$334,514,800	92.92%	\$315,307,010	92.79%
Public Utility	25,480,650	7.08	24,503,500	7.21
Total Assessed Value	<u>\$359,995,450</u>	<u>100.00%</u>	<u>\$339,810,510</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$40.36		\$40.36	

**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

Note 9 - Payment in Lieu of Taxes

According to State law, the City of Marion has entered into agreements with a number of property owners under which the City has granted property tax exemptions to those property owners. The property owners have agreed to make payments to the City which reflect all or a portion of the property taxes which the property owners would have paid if their taxes had not been exempted. The agreements require a portion of these payments to be made to the School District. The property owners' contractually promise to make these payments in lieu of taxes until the agreement expires.

Note 10 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2011, was as follows:

	Balance at 6/30/10	Additions	Reductions	Balance at 6/30/11
Governmental Activities				
Nondepreciable Capital Assets				
Land	\$1,965,229	\$0	\$0	\$1,965,229
Depreciable Capital Assets				
Land Improvements	957,587	0	0	957,587
Buildings and Building Improvements	90,753,743	0	0	90,753,743
Furniture, Fixtures, and Equipment	578,302	223,677	0	801,979
Vehicles	1,588,290	78,793	(18,000)	1,649,083
Total Depreciable Capital Assets	<u>93,877,922</u>	<u>302,470</u>	<u>(18,000)</u>	<u>94,162,392</u>
Less Accumulated Depreciation				
Land Improvements	(271,714)	(35,056)	0	(306,770)
Buildings and Building Improvements	(13,108,151)	(1,767,515)	0	(14,875,666)
Furniture, Fixtures, and Equipment	(216,984)	(52,244)	0	(269,228)
Vehicles	(803,039)	(93,800)	9,000	(887,839)
Total Accumulated Depreciation	<u>(14,399,888)</u>	<u>(1,948,615)</u>	<u>9,000</u>	<u>(16,339,503)</u>
Depreciable Capital Assets, Net	<u>79,478,034</u>	<u>(1,646,145)</u>	<u>(9,000)</u>	<u>77,822,889</u>
Governmental Activities Capital Assets, Net	<u>\$81,443,263</u>	<u>(\$1,646,145)</u>	<u>(\$9,000)</u>	<u>\$79,788,118</u>
Business-Type Activities				
Nondepreciable Capital Assets				
Land	\$151,853	\$0	\$0	\$151,853
Depreciable Capital Assets				
Buildings and Building Improvements	8,616,936	0	0	8,616,936
Furniture, Fixtures, and Equipment	13,992	0	0	13,992
Total Depreciable Capital Assets	<u>8,630,928</u>	<u>0</u>	<u>0</u>	<u>8,630,928</u>

(continued)

**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

Note 10 - Capital Assets (Continued)

	Balance at 6/30/10	Additions	Reductions	Balance at 6/30/11
Business-Type Activities (continued)				
Less Accumulated Depreciation				
Buildings and Building				
Improvements	(1,206,328)	(170,624)	0	(1,376,952)
Furniture, Fixtures, and Equipment	(117)	(1,399)	0	(1,516)
Total Accumulated Depreciation	(1,206,445)	(172,023)	0	(1,378,468)
Depreciable Capital Assets, Net	7,424,483	(172,023)	0	7,252,460
Business-Type Activities				
Capital Assets, Net	\$7,576,336	(\$172,023)	\$0	\$7,404,313

Depreciation expense was charged to governmental functions as follows:

Instruction:		
Regular		\$1,220,766
Special		169,165
Vocational		27,111
Adult/Continuing		316
Support Services:		
Pupils		22,078
Instructional Staff		85,521
Administration		107,705
Fiscal		2,778
Operation and Maintenance of Plant		85,742
Pupil Transportation		84,854
Extracurricular Activities		142,579
Total Depreciation Expense		\$1,948,615

Depreciation expense was charged to other enterprise funds as follows:

Other Enterprise Funds		
Adult Education		\$611

Note 11 - Interfund Assets/Liabilities

At June 30, 2011, the General Fund had an interfund receivable, in the amount of \$18,842, from other governmental funds for short-term loans made to those funds. Amounts are expected be repaid within one year.

**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

Note 12 - Risk Management

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 2011, the School District contracted for the following insurance coverage:

Coverage provided by Ohio Casualty Insurance Company:

Buildings and Contents - replacement cost	\$170,545,657
Auto Liability	1,000,000
General Liability	
Each Occurrence	1,000,000
Aggregate	2,000,000
Excess Liability	5,000,000

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

The School District participates in the Ohio Association of School Business Officials Workers' Compensation Group Rating Plan (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 participants' 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.

Note 13 - Defined Benefit Pension Plans

A. State Teachers Retirement System

Plan Description - The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing multiple-employer public employee retirement system. 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 can be obtained by writing to the State Teachers Retirement System of Ohio, 275 East Broad Street, Columbus, Ohio 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

Note 13 - Defined Benefit Pension Plans (Continued)

A. State Teachers Retirement System (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 all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 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. 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 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 - Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the STRS Ohio Board upon the recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. For the fiscal year ended June 30, 2011, plan members were required to contribute 10 percent of their annual covered salary. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations.

The School District's required contribution to STRS Ohio for the DBP and for the defined benefit portion of the CP were \$2,966,568 and \$43,396 for the fiscal year ended June 30, 2011, \$2,939,584 and \$52,709 for the fiscal year ended June 30, 2010, and \$2,917,551 for the fiscal year ended June 30, 2009. For fiscal year 2011, 83 percent has been contributed for both the DBP and the CP, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2010 and 2009.

The contribution to STRS Ohio for the DCP for fiscal year 2011 was \$47,745 made by the School District and \$34,104 made by the plan members. In addition, member contributions of \$30,997 were made for fiscal year 2011 for the defined contribution portion of the CP.

B. School Employees Retirement System

Plan Description - The School District participates in the School Employees Retirement System (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 Chapter 3309 of the Ohio Revised Code. SERS issues a stand-alone financial report that can be obtained by visiting the SERS website at www.ohsers.org under employers/audit resources.

**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

Note 13 - Defined Benefit Pension Plans (Continued)

B. School Employees Retirement System (Continued)

Funding Policy - Plan members are 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 requirement 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. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the system's funds (pension trust fund, death benefit fund, Medicare B fund, and health care fund). For the fiscal year ended June 30, 2011, the allocation to pension and death benefits was 11.81 percent. The remaining 2.19 percent of the 14 percent employer contribution rate was allocated to the Medicare B and health care funds. The School District's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2011, 2010, and 2009 was \$562,869, \$602,019, and \$413,466, respectively. For fiscal year 2011, 35 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2010 and 2009.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the State Teachers Retirement System or the School Employees Retirement System have an option to choose Social Security or the State Teachers Retirement System/School Employees Retirement System. As of June 30, 2011, one of the Board of Education members has selected Social Security. The Board's liability is 6.2 percent of wages paid.

Note 14 - Postemployment Benefits

A. State Teachers Retirement System

Plan Description - The School District participates in 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. Ohio law authorizes STRS Ohio to offer the Plan. 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 can be obtained by calling (888) 227-7877 or by visiting the STRS Ohio Web site at www.strsoh.org.

Funding Policy - Chapter 3307 of the Ohio Revised Code authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for postemployment health care may be deducted from employer contributions. For fiscal year 2011, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to postemployment health care. The School District's contribution for health care for the fiscal years ended June 30, 2011, 2010, and 2009 was \$235,208, \$234,395, and \$227,365, respectively. For fiscal year 2011, 83 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2010 and 2009.

**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

Note 14 - Postemployment Benefits (Continued)

B. School Employees Retirement System

Plan Description - The School District participates in two cost-sharing multiple-employer defined benefit other postemployment 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 obligation 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 can be obtained by visiting the SERS website at 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 105(e). For fiscal year 2011, 1.43 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 2011, this amount was \$35,800. For fiscal year 2011, the School District paid \$72,390 in surcharge.

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 contribution for health care for the fiscal years ended June 30, 2011, 2010, and 2009 was \$68,154, \$21,669, and \$189,221, respectively. For fiscal year 2011, 35 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2010 and 2009.

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 2011, this actuarially required allocation was .76 percent of covered payroll. The School District's contribution for Medicare Part B for the fiscal years ended June 30, 2011, 2010, and 2009 was \$36,222, \$35,801, and \$34,114, respectively. For fiscal year 2011, 35 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2010 and 2009.

Note 15 - Other Employee Benefits

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees earn ten to twenty days of vacation per year, depending upon length of service. Accumulated unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time.

**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

Note 15 - Other Employee Benefits (Continued)

A. Compensated Absences (Continued)

Employees earn sick leave at a rate of one and one-fourth days per month. Sick leave may be accumulated up to two hundred sixty-five days for twelve month classified employees, two hundred twenty days for less than twelve month classified employees, and two hundred two days for certified employees. Upon retirement, payment is made for one-third of accrued but unused sick leave credit to the maximum of forty-four and one-third days for classified employees and fifty days for certified employees.

Employees earn extra days if they have more than one hundred twenty days of accumulated sick leave. Depending on length of service, classified employees can earn from four to eight extra days and certified employees can earn from two to ten extra days.

B. Health Care Benefits

The School District offers employee medical benefits through Anthem Blue Cross and Blue Sheild. The employees share the cost of the monthly premium with the Board. The premium varies with employee depending on the terms of the union contract. Dental insurance is offered to all employees through Coresource, vision insurance through Vision Service Plan, and life insurance through Nationwide Insurance.

C. Separation Benefits

The School District offers a separation benefit to certified employees eligible to retire under STRS. The employee must submit their resignation for retirement to the Board no later than March 31 of the fiscal year in which they plan to retire. A separation benefit of \$18,000 will be paid between July 1 and August 1 of the year following retirement. At June 30, 2011, the liability for separation benefits was \$270,000 for governmental activities. At June 30, 2010, the liability for separation benefits was \$616,000 for governmental activities and \$20,000 for business-type activities. During fiscal year 2011, there were additional separation benefits, in the amount of \$54,000 for governmental activities, and separation benefits paid, in the amount of \$400,000 for governmental activities and \$20,000 for business-type activities.

Note 16 - Long-Term Obligations

Changes in the School District's long-term obligations during fiscal year 2011 were as follows:

	Balance at 6/30/10	Additions	Reductions	Balance at 6/30/11	Amounts Due Within One Year
Governmental Activities					
General Obligation Bonds					
FY 2001 School Facilities Construction and Improvement					
Serial Bonds 4.375 - 6.5%	\$3,485,000	\$0	\$620,000	\$2,865,000	\$650,000

(continued)

**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

Note 16 - Long-Term Obligations (Continued)

	Balance at 6/30/10	Additions	Reductions	Balance at 6/30/11	Amounts Due Within One Year
Governmental Activities (continued)					
General Obligation Bonds (continued)					
FY 2007 School Facilities Construction and Improvement Refunding					
Serial Bonds 4 -5%	\$7,110,000	\$0	\$75,000	\$7,035,000	\$150,000
Capital Appreciation Bonds	805,000	0	0	805,000	0
Accretion on Capital Appreciation Bonds	277,845	110,387	0	388,232	0
Premium	579,818	0	5,494	574,324	0
Accounting Loss	(441,892)	4,187	0	(437,705)	0
Total General Obligation Bonds	11,815,771	114,574	700,494	11,229,851	800,000
Compensated Absences Payable	3,498,058	577,760	331,463	3,744,355	131,360
Capital Leases Payable	152,217	0	28,561	123,656	29,173
Total Governmental Activities Long-Term Obligations	<u>\$15,466,046</u>	<u>\$692,334</u>	<u>\$1,060,518</u>	<u>\$15,097,862</u>	<u>\$960,533</u>
Business-Type Activities					
Compensated Absences Payable	<u>\$59,813</u>	<u>\$20,413</u>	<u>\$22,288</u>	<u>\$57,938</u>	<u>\$13,245</u>

FY 2001 School Facilities Construction and Improvement Bonds - On August 1, 2000, the School District issued \$15,910,000 in voted general obligation bonds for constructing a new high school building and three new elementary school buildings, as well as renovating, remodeling, and improving existing school buildings. The bond issue included serial and term bonds, in the amount of \$11,740,000 and \$4,170,000, respectively. The bonds were issued for a twenty-two year period, with final maturity in fiscal year 2023. During fiscal year 2007, a portion of the serial bonds and all of the term bonds, in the amount of \$3,930,000 and \$4,170,000, respectively, was advance refunded. The remaining bonds are being retired through the Bond Retirement debt service fund. A portion of these bonds were used to acquire unrelated capital assets and, therefore, are reflected as unrestricted net assets, in the amount of \$257,850.

**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

Note 16 - Long-Term Obligations (Continued)

FY 2007 School Facilities Construction and Improvement Refunding Bonds - On June 12, 2007, the School District issued bonds, in the amount of \$8,100,000, to partially refund bonds previously issued in fiscal year 2001 for constructing a new high school building and three new elementary school buildings, and renovating, remodeling, and improving existing school buildings and facilities. The refunding bond issue includes serial and capital appreciation bonds, in the original amount of \$7,295,000 and \$805,000, respectively. The bonds were issued for a sixteen year period, with final maturity during fiscal year 2023. The bonds will be retired through the Bond Retirement debt service fund. A portion of these bonds were used to acquire unrelated capital assets and, therefore, are reflected as unrestricted net assets, in the amount of \$717,892.

The serial bonds are subject to optional redemption, by and at the sole option of the School District, either in whole or in part and in integral multiples of \$5,000, on any date on or after December 1, 2017, at a redemption price of 100 percent of the principal amount redeemed plus accrued interest to the redemption date.

The capital appreciation bonds are not subject to prior redemption. The capital appreciation bonds will mature on December 1, 2015, and December 1, 2016, in the amount of \$960,000 and \$960,000, respectively. For fiscal year 2011, \$110,387 was accreted on the capital appreciation bonds for a total bond value of \$1,193,232 at fiscal year end.

The refunded bonds have been fully retired.

Compensated absences will be paid from the General Fund, the Miscellaneous Grants, Auxiliary Services, Title VI-B, Title I, Improving Teacher Quality, Title II-D, and Miscellaneous Federal Grants special revenue funds, and the Food Service enterprise fund. Capital leases will be paid from the General Fund.

The School District's overall debt margin was \$18,624,807 with an unvoted debt margin of \$315,716 at June 30, 2011.

Principal and interest requirements to retire the general obligation bonds outstanding at June 30, 2011, were as follows:

Fiscal Year Ending	General Obligation Bonds			
	Serial	Capital Appreciation	Interest	Total
2012	\$800,000	\$0	\$452,060	\$1,252,060
2013	850,000	0	402,746	1,252,746
2014	895,000	0	350,328	1,245,328
2015	955,000	0	294,513	1,249,513
2016	0	420,000	805,600	1,225,600
2017-2021	4,095,000	385,000	1,550,500	6,030,500
2022-2023	2,305,000	0	93,100	2,398,100
	<u>\$9,900,000</u>	<u>\$805,000</u>	<u>\$3,948,847</u>	<u>\$14,653,847</u>

**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

Note 17 - Capital Leases - Lessee Disclosure

The School District has entered into capitalized leases for equipment. Each lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments are reflected as debt service expenditures on the statement of revenues, expenditures, and changes in fund balances for the governmental funds. Principal payments in 2011 were \$28,561.

	Governmental Activities
Equipment	\$192,952
Less Accumulated Depreciation	(86,140)
Total June 30, 2011	\$106,812

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2011.

Fiscal Year	Principal	Interest
2012	\$29,173	\$11,465
2013	31,841	8,300
2014	28,813	5,142
2015	21,623	2,301
2016	12,206	663
	\$123,656	\$27,871

Note 18 - Set Asides

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 2011.

	Textbooks	Capital Improvements
Balance June 30, 2010	\$1,702,661	\$0
Current Year Set Aside Requirement	611,870	611,870
Qualifying Expenditures	(871,120)	0
Current Year Offsets	0	(611,870)
Balance June 30, 2011	\$1,443,411	\$0

Effective July 1, 2011, the textbook set aside is no longer required and has been removed from existing law. This balance is therefore not presented as being carried forward to the future fiscal year.

**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

Note 19 - Fund Balance

Fund balance is classified as nonspendable, restricted, committed, assigned, and/or unassigned based primarily on the extent to which the School District is bound to observe constraints imposed upon the use of the resources in governmental funds.

The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

Fund Balance	General	Other Governmental	Total Governmental Funds
Nonspendable for:			
Prepaid Items	\$66,993	\$0	\$66,993
Materials and Supplies Inventory	89,090	0	89,090
Music Education	0	2,717	2,717
Total Nonspendable	156,083	2,717	158,800
Restricted for:			
Athletics and Music	0	71,776	71,776
Bond Retirement	0	915,409	915,409
Capital Improvements	0	136,151	136,151
Educational Management Information System	0	22,828	22,828
English Proficiency	0	134	134
Facilities Maintenance	0	899,980	899,980
Regular Instruction	0	171,969	171,969
Special Needs Children	0	11,473	11,473
Teacher Improvement	0	5,589	5,589
Technology Improvement	0	2,443	2,443
Textbooks and Instructional Materials	1,443,411	0	1,443,411
Total Restricted	1,443,411	2,237,752	3,681,163
Assigned for:			
Educational Activities	69,431	0	69,431
Unpaid Obligations	442,912	0	442,912
Total Assigned	512,343	0	512,343
Unassigned (Deficit)	11,460,852	(471,595)	10,989,257
Total Fund Balance	\$13,572,689	\$1,768,874	\$15,341,563

Note 20 - Interfund Transfers

During fiscal year 2011, the General Fund made transfers to other governmental funds, in the amount of \$65,000, to subsidize programs in other funds.

**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

Note 21 - Donor Restricted Endowments

The School District's private purpose trust fund includes donor restricted endowments. Endowments, in the amount of \$98,443 represent the principal portion. The amount of net appreciation in donor restricted investments that is available for expenditures by the School District is \$7,560 and is included as held in trust for scholarships. State law permits the School District to appropriate, for purposes consistent with the endowment's intent, net appreciation, realized and unrealized, unless the endowment terms specify otherwise. The endowment indicates that the interest should be used to provide a scholarship each year.

Note 22 - Jointly Governed Organizations

A. Tri-Rivers Educational Computer Association

The School District is a participant in the Tri-Rivers Educational Computer Association (TRECA), which is a computer consortium. TRECA is an association of public school districts within the boundaries of Delaware, Knox, Marion, Morrow, Muskingum, and Wyandot Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of TRECA consists of one representative from each county elected by majority vote of all charter member school districts within each county, one representative from the city school districts, and the superintendent from Tri-Rivers Joint Vocational School. During fiscal year 2011, the School District paid \$251,307 to TRECA for various services. Financial information can be obtained from TRECA, 100 Executive Drive, Marion, Ohio 43302.

B. Tri-Rivers Joint Vocational School

The Tri-Rivers Joint Vocational School (JVS) is a distinct political subdivision of the State of Ohio which provides vocational education. The JVS operates under the direction of a Board consisting of one representative from each of the ten participating school districts' Board of Education. The Board possesses its own budgeting and taxing authority. The degree of control exercised by the School District is limited to its representation on the Board. Financial information can be obtained from the Tri-Rivers Joint Vocational School, 2222 Marion Mt. Gilead Road, Marion, Ohio 43302.

Note 23 - Insurance Pools

The School District participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Ohio Association of School Business Officials (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.

**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

Note 24 - Related Organization

The Marion Public Library is a distinct political subdivision of the State of Ohio created under Chapter 3375 of the Ohio Revised Code. The Library is governed by a Board of Trustees appointed by the Marion City Board of Education. The Board of Trustees possesses its own contracting and budgeting authority, hires and fires personnel, and does not depend on the School District for operational subsidies. Although the School District serves as the taxing authority, its role is limited to a ministerial function. The determination to request approval of a tax, the rate, and the purpose are discretionary decisions made solely by the Board of Trustees. Financial information can be obtained from the Marion Public Library, 445 East Church Street, Marion, Ohio 43302.

Note 25 - Marion City Digital Academy

A. Basis of Presentation

Marion City Digital Academy is accounted for using a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities are included on the statement of net assets. Marion City Digital Academy uses the full accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and expenses are recognized at the time they are incurred.

B. Deposits

At fiscal year end, the carrying amount of MCDA's deposits was \$488,079. At fiscal year end, \$238,962 of MCDA's bank balance of \$488,962 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject MCDA to a successful claim by the FDIC.

C. Capital Assets

Capital asset activity for the fiscal year ended June 30, 2011, was as follows:

	<u>Balance at 6/30/10</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 6/30/11</u>
Depreciable Capital Assets				
Equipment	\$177,628	\$520	\$0	\$178,148
Less Accumulated Depreciation	(149,515)	(18,468)	0	(167,983)
Capital Assets, Net	<u>\$28,113</u>	<u>(\$17,948)</u>	<u>\$0</u>	<u>\$10,165</u>

D. Related Party Transaction

In fiscal year 2011, Marion City School District received \$670,023 from MCDA. This represents payments of \$24,724 for administrative services provided by Marion City School District to MCDA and \$645,299 for reimbursements for supplies and equipment purchases made by Marion City School District for MCDA.

**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

Note 26 - Rushmore Academy

A. Basis of Presentation

Rushmore Academy is accounted for using a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities are included on the statement of net assets. Rushmore Academy uses the full accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and expenses are recognized at the time they are incurred.

B. Deposits

At fiscal year end, the carrying amount of the Academy's deposits was \$488,066 and the bank balance was \$644,423. The entire bank balance was covered by federal depository insurance.

C. Capital Assets

Capital asset activity for the fiscal year ended June 30, 2011, was as follows:

	<u>Balance at 6/30/10</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 6/30/11</u>
Depreciable Capital Assets				
Furniture and Equipment	\$118,398	\$96,001	\$0	\$214,399
Less Accumulated Depreciation	(20,298)	(33,531)	0	(53,829)
Capital Assets, Net	<u>\$98,100</u>	<u>\$62,470</u>	<u>\$0</u>	<u>\$160,570</u>

D. Related Party Transactions

In fiscal year 2011, Marion City School District received \$546,855. These represent payments of \$541,508 for administrative and support services provided by Marion City School District to the Academy and \$5,347 for reimbursements for supplies and equipment purchases made by Marion City School District for the Academy.

Note 27 - Contingencies

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2011.

B. Litigation

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

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**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2011**

FEDERAL GRANTOR <i>Pass Through Grantor</i>	Federal CFDA Number	Receipts	Disbursements
Program Title			
U.S. DEPARTMENT OF AGRICULTURE			
<i>Passed Through Ohio Department of Education</i>			
Child Nutrition Cluster:			
Non - Cash Assistance (Food Distribution):			
National School Lunch Program	10.555	\$ 59,898	\$ 59,898
Cash Assistance:			
School Breakfast Program	10.553	479,115	479,115
National School Lunch Program	10.555	1,264,827	1,264,827
Summer Food Service Program for Children	10.559	117,298	117,298
Cash Assistance Subtotal:		<u>1,861,240</u>	<u>1,861,240</u>
Total Child Nutrition Cluster		<u>1,921,138</u>	<u>1,921,138</u>
Total U.S. Department of Agriculture		<u>1,921,138</u>	<u>1,921,138</u>
U.S. DEPARTMENT OF EDUCATION			
<i>Passed Through Ohio Department of Education</i>			
Title I Cluster			
Title I Grants to Local Educational Agencies	84.010	2,536,507	2,608,417
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	629,241	705,773
Total Title I Cluster		<u>3,165,748</u>	<u>3,314,190</u>
Special Education Cluster			
Special Education_Grants to States	84.027	1,077,484	1,233,548
Special Education Preschool Grants	84.173	53,670	52,046
ARRA-Special Education Grants to States, Recovery Act	84.391	798,212	505,299
ARRA - Special Education Preschool Grants (IDEA Preschool), Recovery Act	84.392	33,764	21,813
Total Special Education Cluster		<u>1,963,130</u>	<u>1,812,706</u>
Safe & Drug - Free Schools & Communities - State Grants	84.186	903	-
Education Technology State Grants Cluster			
Education Technology State Grants	84.318	13,956	14,099
ARRA - Education Technology State Grants, Recovery Act	84.386	217,103	212,096
Total Education Technology State Grants Cluster		<u>231,059</u>	<u>226,195</u>
Reading First	84.357	785,485	670,744
English Language Acquisition Grants	84.365	14,174	13,609
Improving Teacher Quality Program	84.367	419,186	383,328
ARRA - Education of Homeless Children & Youth, Recovery Act	84.387	3,272	-
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394	2,522,180	2,522,180
ARRA - State Fiscal Stabilization Fund (SFSF) - Race to the Top Incentive Grants, Recovery Act	84.395	201,025	187,931
Total U.S. Department of Education		<u>9,306,162</u>	<u>9,130,883</u>
Total		<u>\$ 11,227,300</u>	<u>\$ 11,052,021</u>

The accompanying notes are an integral part of this schedule.

**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2011**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - CHILD NUTRITION CLUSTER

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

NOTE C – FOOD DONATION PROGRAM

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



Dave Yost • Auditor of State

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

Marion City School District
Marion County
420 Presidential Dr. Suite B
Marion, Ohio 43302

To the Board of Education:

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Marion City School District, Marion County, Ohio, (the District) as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements and have issued our report thereon dated August 16, 2012, wherein we noted the District adopted the provisions of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We did note certain matters not requiring inclusion in this report that we reported to the District's management in a separate letter dated August 16, 2012.

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

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State

August 16, 2012



Dave Yost • 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 City School District
Marion County
420 Presidential Dr. Suite B
Marion, Ohio 43302

To the Board of Education:

Compliance

We have audited the compliance of Marion City School District, Marion County, Ohio (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of the Marion City School District's major federal programs for the year ended June 30, 2011. The *summary of auditor's results* section of the accompanying schedule of findings and questioned costs identifies the District's major federal programs. The 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 opine on the District's compliance based on our audit.

Our compliance audit followed 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*. These 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 District's compliance with these 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 District's compliance with these requirements.

As described in findings 2011-001, 2011-003, and 2011-004 in the accompanying schedule of findings and questioned costs, the District did not comply with requirements regarding allowable costs/cost principles applicable to its Special Education Cluster and Title I Cluster major federal programs and with requirements regarding activities allowed/unallowed, allowable costs/cost principles, and period of availability applicable to the Improving Teacher Quality major federal program. Compliance with these requirements is necessary, in our opinion, for the District to comply with requirements applicable to these programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the Marion City School District, Marion County, Ohio, complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2011.

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www.auditor.state.oh.us

Marion City School District
Marion County
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

The results of our auditing procedures also disclosed other instances of noncompliance with these requirements that, while not affecting our opinion on compliance, OMB Circular A-133 requires us to report. The accompanying schedule of findings and questioned costs lists these instances as Findings 2011-002 through 2011-004.

Internal Control Over Compliance

The 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 District's internal control over compliance with the requirements that could directly and materially affect a major federal program, to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, we cannot assure we have identified all deficiencies, significant deficiencies, or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2011-001 through 2011-004 to be material weaknesses.

The District's responses to the findings we identified are described in the accompanying schedule of findings and questioned costs. We did not audit the District's responses and, accordingly, we express no opinion on them.

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



Dave Yost
Auditor of State

August 16, 2012

**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2011**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weaknesses reported for major federal programs?	Yes
<i>(d)(1)(iv)</i>	Were there any significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified – all major programs except Title I Cluster, Special Education Cluster, & Improving Teacher Quality Qualified – Title I Cluster, Special Education Cluster, & Improving Teacher Quality
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510(a)?	Yes
<i>(d)(1)(vii)</i>	Major Programs (list):	<u>Title I Cluster</u> CFDA #84.010 – Title I Grants to Local Educational Agencies CFDA #84.389 – ARRA-Title I Grants to Local Educational Agencies, Recovery Act

**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2011
(Continued)**

1. SUMMARY OF AUDITOR'S RESULTS (Continued)

(d)(1)(vii)	Major Programs (list):	<p><u>Special Education Cluster</u> CFDA #84.027 – Special Education_Grants to States CFDA #84.173 – Special Education Preschool Grants CFDA #84.391 – ARRA-Special Education Grants to States, Recovery Act CFDA #84.392 – ARRA-Special Education Preschool Grants (IDEA Preschool), Recovery Act</p> <p><u>Education Technology Cluster</u> CFDA #84.318 – Education Technology State Grants CFDA #84.386 – ARRA-Education Technology State Grants, Recovery Act</p> <p>CFDA #84.357 – Reading First</p> <p>CFDA #84.367 – Improving Teacher Quality Program</p> <p>CFDA #84.394 – ARRA-State Fiscal Stabilization Fund (SFSF)-Education State Grants, Recovery Act</p>
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 331,561 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2011
(Continued)**

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

Finding Number	2011-001
CFDA Title and Number	Special Education_Grants to States, #84.027; Special Education Preschool Grants, #84.173; ARRA-Special Education Grants to States Recovery Act, #84.391; ARRA-Special Education Preschool Grants (IDEA Preschool), Recovery Act, #84.392
Federal Award Number / Year	2011
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

**Material Noncompliance / Material Weakness
Allowable Cost/Cost Principles**

2 C.F.R. Part 225, Appendix B (8)(h) states that, in addition to the standards for payroll documentation, where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having firsthand knowledge of the work performed by the employee.

Of the Special Education (IDEA) Part B employee's time tested for fiscal year 2011, 43% were not supported by certifications or only supported by certifications once during the year.

We recommend that the District follow the compliance requirements included in 2 C.F.R. Appendix B to ensure that certifications are prepared at least semi-annually for employees that are expected to work solely on a single Federal award or cost objective.

Officials' Response and Corrective Action Plan

Totally corrected for fy 2012. (Issue was brought to our attention in time to correct for fy 2012).

The contact for this finding is Sandy Borland, Director of Student Services.

**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2011
(Continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)

Finding Number	2011-002
CFDA Title and Number	Reading First, #84.357
Federal Award Number / Year	2011
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

**Material Noncompliance / Material Weakness / Questioned Costs
Period of Availability**

2 C.F.R. §215.28 states that where a funding period is specified, a recipient may charge to the grant only allowable costs resulting from obligations incurred during the funding period and any pre-award costs authorized by the Federal awarding agency. In the State of Ohio, programs in the Ohio Department of Education's (ODE's) Consolidated Application have a project period starting with the application's substantially approved date through June 30. The substantially approved date of the fiscal year 2011 Reading First application was July 1, 2010.

During fiscal year 2011, the District charged \$4,735 in salaries and \$3,209 in instructional materials obligated prior to July 1, 2010 to the fiscal year 2011 award. As a result, we are questioning salaries and instructional materials charged to the Reading First program in the amount of \$7,944. However, the likely questioned costs based on these exceptions exceed \$10,000.

We recommend that the District follow the compliance requirements of 2 C.F.R. §215.28 to ensure the allowability of expenditures charged to the federal programs.

Officials' Response and Corrective Action Plan

Marion City Schools will follow compliance requirements of 2 C.F.R. 215.28 to ensure the allowability of expenditures charged to the federal programs for fy 2013 based on the substantially approved dates. The above expenditures were allowable expenditures from the grant.

The contact for this finding is Robert Wood, Treasurer and Miles Burson, Director of State & Federal Programs.

**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2011
(Continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)

Finding Number	2011-003
CFDA Title and Number	Title I Grants to Local Educational Agencies, #84.010; ARRA-Title I Grants to Local Educational Agencies Recovery Act, #84.389; Reading First, #84.357; Improving Teacher Quality Program, #84.367
Federal Award Number / Year	2010 / 2011
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

**Material Noncompliance / Material Weakness / Questioned Costs
Allowable Cost/Cost Principles**

2 C.F.R. Part 225, Appendix B(8)(g) states the following regarding severance pay:

1. Payments in addition to regular salaries and wages made to workers whose employment is being terminated are allowable to the extent that, in each case, they are required by law, employer-employee agreement, or established written policy.
2. Severance payments (but not accruals) associated with normal turnover are allowable. Such payments shall be allocated to all activities of the governmental unit as an indirect cost.
3. Abnormal or mass severance pay will be considered on a case-by-case basis and is allowable only if approved by the cognizant Federal agency.

Furthermore, 2 C.F.R. Part 225, Appendix B (8)(h) states that the following standards regarding time distribution are in addition to the standards for payroll documentation:

1. Charges to Federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official(s) of the governmental unit.
2. No further documentation is required for the salaries and wages of employees who work in a single indirect cost activity.
3. Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having firsthand knowledge of the work performed by the employee.
4. Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) below unless a statistical sampling system or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on:
 - a. More than one Federal award,
 - b. A Federal award and a non-federal award,
 - c. An indirect cost activity and a direct cost activity,
 - d. Two or more indirect activities which are allocated using different allocation bases, or

**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2011
(Continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)

Finding Number	2011-003 (Continued)
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**Material Noncompliance / Material Weakness / Questioned Costs (Continued)
Allowable Cost/Cost Principles (Continued)**

- e. An unallowable activity and a direct or indirect cost activity.
- 5. Personnel activity reports or equivalent documentation must meet the following standards:
 - a. They must reflect an after-the-fact distribution of the actual activity of each employee,
 - b. They must account for the total activity for which each employee is compensated,
 - c. They must be prepared at least monthly and must coincide with one or more pay periods, and
 - d. They must be signed by the employee.
 - e. Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards but may be used for interim accounting purposes, provided that:
 - i. The governmental unit's system for establishing the estimates produces reasonable approximations of the activity actually performed;
 - ii. At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to Federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and
 - iii. The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances.

During fiscal year 2011, the District charged \$1,687 in severance payments directly to the Title I Cluster rather than allocating it to all activities of the District as an indirect cost. Additionally, the District charged \$20,290 in retirement incentives to the Title I Cluster. The District did not receive approval from the cognizant Federal agency (U.S. Department of Education) for the retirement incentives. As a result, we are questioning total severance and retirement incentives payments charged to the Title I Cluster in the amount of \$21,977.

Additionally, during fiscal year 2011, the District distributed the Director of State & Federal Programs', the Secretaries of State & Federal Programs', and the District Data Manager's salaries to the following federal programs based on budget estimates determined at the beginning of the fiscal year: Title I Cluster, Reading First program, and/or Improving Teacher Quality program. Although personal activity reports were prepared for these employees, the reports: 1) either documented spending equal amounts of time on the same programs each day or pay period (percentages based on the budget estimates determined at the beginning of the fiscal year) and/or 2) were not compared to budgeted distributions and adjusted accordingly. Of the amount tested, \$11,344 was charged to the Title I Cluster, \$2,337 was charged to the Reading First program, and \$2,178 was charged to the Improving Teacher Quality program. The likely questioned costs based on these exceptions exceed \$10,000 for the Reading First and Improving Teacher Quality programs.

We recommend that the District follow the compliance requirements included in 2 C.F.R. Part 225, Appendix B to ensure the allowability of payroll charged to federal programs.

**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2011
(Continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)

Finding Number	2011-003 (Continued)
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**Material Noncompliance / Material Weakness / Questioned Costs (Continued)
Allowable Cost/Cost Principles (Continued)**

Officials' Response and Corrective Action Plan

2 C.F.R. Part 225 App. B(8)(g): Severance payments for fy 2012 after the post audit date of August 22, 2012 will be paid from the general fund.

2 C.F.R. Part 225 App. B(8)(h): fy 2011 documentation was based on past practice that has never been called into question.

Beginning fy 2013, for employees paid from multiple federal funds, documentation will be kept by month of actual time worked on each project. Time sheets will be reviewed quarterly between budgeted and actual time with revisions made as necessary.

The contact for this finding is Robert Wood, Treasurer and Miles Burson, Director of State & Federal Programs.

Finding Number	2011-004
CFDA Title and Number	Title I Grants to Local Educational Agencies, #84.010; ARRA-Title I Grants to Local Educational Agencies Recovery Act, #84.389; Improving Teacher Quality Program, #84.367; ARRA-Education Technology State Grants, Recovery Act, #84.386
Federal Award Number / Year	2010 / 2011
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

**Material Noncompliance / Material Weakness / Questioned Costs
Activities Allowed/Unallowed, Allowable Cost/Cost Principles, & Period of Availability**

Activities Allowed/Unallowed & Allowable Cost/Cost Principles

1. 2 C.F.R. Part 225, Appendix A, Section C(3)(a) states that a cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received. Furthermore, Section C(1)(a)-(j) lists the factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria:
 - a. Be necessary and reasonable for proper and efficient performance and administration of Federal awards.
 - b. Be allocable to Federal awards under the provisions of 2 C.F.R. Part 225.

**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2011
(Continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)

Finding Number	2011-004 (Continued)
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**Material Noncompliance / Material Weakness / Questioned Costs (Continued)
Activities Allowed/Unallowed, Allowable Cost/Cost Principles, & Period of Availability (Continued)**

- c. Be authorized or not prohibited under State or local laws or regulations.
- d. Conform to any limitations or exclusions set forth in these principles, Federal laws, terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost items.
- e. Be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit.
- f. Be accorded consistent treatment. A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost.
- g. Except as otherwise provided for in 2 C.F.R. Part 225, be determined in accordance with generally accepted accounting principles.
- h. Not be included as a cost or used to meet cost sharing or matching requirements of any other Federal award, except as specifically provided by Federal law or regulation.
- i. Be the net of all applicable credits.
- j. Be adequately documented.

During fiscal year 2011, the District charged the following to the District's RSIT Partnership Grant fund (019-9314):

- \$8,000 of the fiscal year 2010 Improving Teacher Quality Program award
- \$32,564 of the fiscal year 2010 Title I Grants to Local Educational Agencies award
- \$16,755 of the fiscal year 2011 Education Technology State Grants award

The documentation maintained for these expenditures was insufficient to determine allowability.

Additionally during fiscal year 2011, \$2,346 in transportation costs for the Grant Middle School Homework Club were charged to the fiscal year 2011 Title I award. Grant Middle School was not served by Title I during fiscal year 2011.

- 2. 20 U.S.C. §6623(a) states that a local educational agency (LEA) that receives a subgrant under section 6621 shall use the funds to carry out one or more of the following activities:
 - 1. Developing and implementing mechanisms to assist schools in effectively recruiting and retaining highly qualified teachers.
 - 2. Developing and implementing initiatives to assist in recruiting highly qualified teachers and hiring highly qualified teachers.
 - 3. Providing professional development activities.
 - 4. Developing and implementing initiatives to promote retention of highly qualified teachers and principals.
 - 5. Carrying out programs and activities that are designed to improve the quality of the teacher force.
 - 6. Carrying out professional development activities designed to improve the quality of principals and superintendents.
 - 7. Hiring highly qualified teachers.
 - 8. Carrying out teacher advancement initiatives that promote professional growth and emphasize multiple career paths and pay differentiation.
 - 9. Carrying out programs and activities related to exemplary teachers.

**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2011
(Continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)

Finding Number	2011-004 (Continued)
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**Material Noncompliance / Material Weakness / Questioned Costs (Continued)
Activities Allowed/Unallowed, Allowable Cost/Cost Principles, & Period of Availability (Continued)**

During fiscal year 2011, the District charged \$900 of the cost of the Ohio Career Information System (OCIS) for the middle and high schools to the Improving Teacher Quality program. As OCIS is a occupational, post-secondary education, and financial aid system designed for students, it does not meet the definition of an allowable activities as defined above.

3. Section 1114(a)(1) of the Elementary and Secondary Education Act (ESEA) states that a local educational agency may consolidate and use funds under this part to upgrade the entire educational program of a school.

During fiscal year 2011, the District charged \$3,784 in consulting services for sidewalks at Taft Elementary School to the Title I Cluster. As these expenditures are non-educational in nature, they are not allowable under Title I.

Period of Availability

Furthermore, 2 C.F.R. §215.28 states that where a funding period is specified, a recipient may charge to the grant only allowable costs resulting from obligations incurred during the funding period and any pre-award costs authorized by the Federal awarding agency. In the State of Ohio, programs in the Ohio Department of Education's (ODE's) Consolidated Application have a project period starting with the application's substantially approved date through June 30.

The substantially approved date of the fiscal year 2011 applications for the Improving Teacher Quality Program, Education Technology State Grants program, and Title I Grants to Local Educational Agencies program was July 1, 2010.

During fiscal year 2011, the District charged:

- \$220 in mileage reimbursements obligated prior to July 1, 2010 to the fiscal year 2011 award and \$600 in professional development workshops obligated after June 30, 2010 to the fiscal year 2010 award for the Improving Teacher Quality Program.
- \$62 in mileage reimbursements obligated prior to July 1, 2010 to the fiscal year 2011 award and \$3,695 in electronics obligated after June 30, 2010 to the fiscal year 2010 award for the Education Technology State Grants program.
- \$809 in iPad equipment obligated after June 30, 2010 to the fiscal year 2010 award for the Title I Grants to Local Educational Agencies program.

**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2011
(Continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)

Finding Number	2011-004 (Continued)
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**Material Noncompliance / Material Weakness / Questioned Costs (Continued)
Activities Allowed/Unallowed, Allowable Cost/Cost Principles, & Period of Availability (Continued)**

Period of Availability (Continued)

Total questioned costs by program / year for unallowable expenditures and payments outside the period of availability noted above are as follows:

Program	Questioned Costs
Teacher Quality Program – 2010	\$8,600 (likely questioned costs > \$10,000)
Teacher Quality Program – 2011	\$1,120
Title I Cluster – 2010	\$33,373
Title I Cluster – 2011	\$ 6,130
Education Technology State Grants – 2010	\$ 3,695
Education Technology State Grants – 2011	\$16,817

We recommend that the District follow the compliance requirements included in 2 C.F.R Part 225, Appendix A, 2 C.F.R. §215.28, and Section 1114(a)(1) of the ESEA to ensure the allowability of costs when charging federal programs.

Officials' Response and Corrective Action Plan

2 C.F.R. Part 225 App. A, Section C(3)(a): Documentation that met the criteria that costs charged were necessary and reasonable for the proper and efficient performance and administration for each federal charge was provided for these allowable costs. In the past, the documentation was sufficient for previous audits conducted. The state auditors reviewers determined that the documentation was not sufficient. For fy 2012 and beyond, detailed documentation will be logged by grant, activity and date for fiscal and management services provided.

Transportation costs for the Grant Middle School Homework Club were charged to the wrong account. In the future, expenditures will be monitored to ensure that correct fund and fiscal year is charged.

20 U.S.C. 6623(a): Cost of \$900 for the Ohio Career Information System (OCIS) were charged to the wrong account. In the future, expenditures will be monitored to ensure that correct fund and fiscal year is charged.

Section 1114(a)(1): Marion City Schools determined that the costs for sidewalks at Taft Elementary were an allowable cost under Title 1-A because getting students to school safely is a reasonable and necessary cost for the success of the Title I Schoolwide Program at Taft Elementary School.

2 C.F.R. 225.28: The following costs were incorrectly charged to the wrong fiscal year: \$200 in mileage, \$600 in professional development for Title IIA, \$3,695 in electronics for the Education Technology State Grants Program and \$809 for equipment for Title I. In the future, expenditures will be monitored to ensure that correct fund and fiscal year is charged. The above expenditures were allowable expenditures from the grant.

MARION CITY SCHOOL DISTRICT
MARION COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2011
(Continued)

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)

Finding Number	2011-004 (Continued)
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Material Noncompliance / Material Weakness / Questioned Costs (Continued)
Activities Allowed/Unallowed, Allowable Cost/Cost Principles, & Period of Availability (Continued)

Officials' Response and Corrective Action Plan (Continued)

The contact for this finding is Robert Wood, Treasurer and Miles Burson, Director of State & Federal Programs.

Auditor of State's Conclusion

During fiscal year 2011, the District charged \$8,000 of the fiscal year 2010 Improving Teacher Quality Program award, \$32,564 of the fiscal year 2010 Title I Grants to Local Education Agencies award, and \$16,755 of the fiscal year 2011 Education Technology State Grants award to the District's RSIT Partnership Grant fund (019-9314). While the District did provide documentation for allowable administrative costs to be charged to these programs, the documentation provided was insufficient to determine allowability of the total amounts charged to the programs.

During fiscal year 2011, the District charged \$3,784 in consulting services for sidewalks at Taft Elementary School to the Title I Cluster. As these costs were not to upgrade the entire educational program of the school, they are not allowable under Title I.

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURE

Marion City School District
Marion County
420 Presidential Dr. Suite B
Marion, Ohio 43302

To the Board of Education:

Ohio Rev. Code Section 117.53 states "the auditor of state shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The auditor of state shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school."

Accordingly, we have performed the procedure enumerated below, which was agreed to by the Board, solely to assist the Board in evaluating whether Marion City School District, Marion County, Ohio, (the District) has updated its anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedure engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of this procedure is solely the responsibility of the Board. Consequently, we make no representation regarding the sufficiency of the procedure described below either for the purpose for which this report has been requested or for any other purpose.

1. We noted the Board amended its anti-harassment policy at its meeting on April 18, 2011 to include violence within a dating relationship within its definition of harassment, intimidation or bullying.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board and is not intended to be and should not be used by anyone other than these specified parties.

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

Dave Yost
Auditor of State

August 16, 2012

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MARION CITY SCHOOL DISTRICT

MARION COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
SEPTEMBER 18, 2012**