

**MARION LOCAL SCHOOL DISTRICT
MERCER COUNTY**

SINGLE AUDIT

FOR THE FISCAL YEAR ENDED JUNE 30, 2011



Dave Yost • Auditor of State

Board of Education
Marion Local School District
7956 State Route 119
Maria Stein, Ohio 45860

We have reviewed the *Independent Auditors' Report* of the Marion Local School District, Mercer County, prepared by Manning & Associates CPAs, LLC, for the audit period July 1, 2010 through June 30, 2011. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost
Auditor of State

March 29, 2012

MARION LOCAL SCHOOL DISTRICT
MERCER COUNTY
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Manning & Associates Certified Public Accountants, LLC

John M. Manning, CPA • Sandra L. Comer, CPA • John C. Bensman, CPA • John M. Keller, CPA

INDEPENDENT AUDITORS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Marion Local School District, Mercer County, (the 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.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Marion Local School District, Mercer County, as of June 30, 2011, and the respective changes in cash financial position and the respective budgetary comparison for the General Fund and OSFC Permanent Improvement Maintenance Fund for the year then ended in conformity with the basis of accounting Note 2 describes.

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 December 19, 2011, 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.

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 expenditure 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 also not a required part of the basic financial statements. The federal awards receipts and expenditure 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.

Manning & Associates CPAs, LLC
Dayton, Ohio

December 19, 2011

**Marion Local School District
Mercer County**

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011*

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

Financial Highlights

Key financial highlights for 2011 are as follows:

- ❑ Total program disbursements were \$8,678,723.
- ❑ General Receipts accounted for \$7,549,453 or 86% of all receipts. Program specific receipts in the form of charges for services and sales, grants, contributions, and interest accounted for \$1,266,939 or 14% of total receipts of \$8,816,392.
- ❑ In total, net assets increased \$137,669.

Using this Annual Report

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

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

Basis of Accounting

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

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

**Marion Local School District
Mercer County**

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011*

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2011?" The Statement of Net Assets and the Statement of Activities answer this question.

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

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

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major funds begins on page 6 for fiscal year 2011. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the General Fund, the Bond Retirement Fund and the OSFC Permanent Improvement Maintenance Fund.

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

Reporting the School District's Fiduciary Responsibilities

The School District acts in a trustee capacity as an agent for student organizations. These activities are reported in agency funds. The School District's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets on page 17. These activities are excluded from the School District's other financial statements because the assets cannot be utilized by the School District to finance its operations.

**Marion Local School District
Mercer County**

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011*

The School District as a Whole

The financial statements for fiscal year 2011 and 2010 were prepared on the cash basis utilizing the GASB Statement No. 34 format.

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

**(Table 1)
Net Assets –Cash basis**

	Governmental Activities	
	<u>2011</u>	<u>2010</u>
Assets		
Equity in Pooled Cash and Cash Equivalen	\$2,592,994	\$2,455,325
Total Assets	<u>\$2,592,994</u>	<u>\$2,455,325</u>
Net Assets		
Restricted for:		
Debt Service	\$ 381,467	\$ 317,480
Capital Outlay	170,436	103,320
Other Purposes	786,757	710,683
Set Asides	160,735	171,169
Unrestricted	<u>1,093,599</u>	<u>1,152,673</u>
Total Net Assets	<u>\$2,592,994</u>	<u>\$2,455,325</u>

**Marion Local School District
Mercer County**

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011*

The School District as a Whole (continued)

These statements were prepared on the cash basis of accounting utilizing GASB 34 format. Table 2 shows the changes in net assets for fiscal years 2011 and 2010, comparatively. This comparison enables the reader to draw further conclusion about the School District's financial status and possibly project future problems.

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

	Governmental Activities	
	2011	2010
Receipts		
<i>Program Receipts</i>		
Charges for Services	\$ 763,751	\$ 737,621
Operating Grants	485,760	592,819
Capital Grants	17,428	16,687
 <i>General Receipts</i>		
Property Taxes	2,735,302	2,750,646
Grants and Entitlements	4,711,424	4,666,674
Interest	28,133	50,892
Other	74,594	36,669
 Total Receipts	8,816,392	8,852,008
 Disbursements		
<i>Program Disbursements</i>		
Instruction	5,346,556	5,293,876
Support Services	2,287,357	2,341,417
Operation of Food Services	308,088	334,615
Extracurricular	375,004	375,698
Capital Outlay	18,812	569,893
Debt Service	342,906	365,517
 Total Disbursements	8,678,723	9,281,016
 Increase/(Decrease) in Net Assets	\$ 137,669	\$ (429,008)

Governmental Activities

Several sources fund the School District's governmental activities with the grants and entitlements being the largest contributor. The School District received \$4.7 million in foundation settlement payments in fiscal year 2011. Property tax levies generated \$2.7 million in 2011. The School District's operations are reliant upon its tax levies and the state's foundation program. Thus, the School District monitors both of these receipt sources closely.

**Marion Local School District
Mercer County**

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011*

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services for fiscal year 2011 and 2010, comparatively. That is, it identifies the cost of these services supported by tax receipts and unrestricted State entitlements.

**(Table 3)
Governmental Activities**

	2011		2010	
	Total Cost of Service	Net Cost of Service	Total Cost of Service	Net Cost of Service
Instruction	\$ 5,346,556	\$ 4,648,843	\$ 5,293,876	\$ 4,529,175
Support Services:				
Pupil and Instructional Staff	518,602	513,602	488,575	481,937
Board of Education, Administration				
Fiscal and Business	825,228	782,932	941,773	905,599
Operation and Maintenance of Plant	601,689	565,264	565,012	529,756
Pupil Transportation	341,639	332,555	346,057	334,772
Central	199	199	0	0
Operation of Food Services	308,088	1,756	334,615	15,472
Extracurricular Activities	375,004	222,343	375,698	218,455
Capital Outlay	18,812	1,384	569,893	553,206
Debt Service	342,906	342,906	365,517	365,517
Total	\$ 8,678,723	\$ 7,411,784	\$ 9,281,016	\$ 7,933,889

Instruction and student support services comprise approximately 68% of governmental program disbursements in fiscal year 2011. Board of Education, administration, fiscal and business charges are approximately 10% of total disbursements. Pupil transportation and the operation/maintenance of facilities accounts for 11% of all governmental program disbursements. The School District's Administration expenditures noted a 12% decrease from prior year with the loss of an administrator who was not replaced in effect to control spending costs.

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

The School District's Funds

The School District has three major governmental funds: the General Fund, the Bond Retirement Fund and the OSFC Permanent Improvement Maintenance Fund. Receipts of the General Fund comprise \$7,076,143 (80%) of the total \$8,796,392 in governmental receipts and \$7,088,592 (82%) of the total governmental funds disbursements.

General Fund – The General Fund cash balance at June 30, 2011 was \$1,254,333, which represents 48% of total governmental fund cash balances for fiscal year 2011. General fund

**Marion Local School District
Mercer County**

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011*

General Fund – The General Fund cash balance at June 30, 2011 was \$1,254,333, which represents 48% of total governmental fund cash balances for fiscal year 2011. General fund receipts and other financing sources were less than disbursements and other financing uses by \$14,029 mostly due to an increase in instruction.

Bond Retirement Fund – The Bond Retirement Fund cash balance at June 30, 2011 was \$381,467, which represents 15% of total governmental fund cash balances for fiscal year 2011.

OSFC Permanent Improvement Maintenance Fund – The OSFC Permanent Improvement Maintenance Fund cash balance at June 30, 2011 was \$414,706, which represents 16% of total governmental fund cash balances for fiscal year 2011.

General Fund Budgeting Highlights

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

During the course of fiscal year 2011, the School District did not modify its general fund budget significantly. The School District uses site-based budgeting, and budgeting systems are designed to tightly control total site budgets but provide flexibility for site management.

For the fiscal year 2011, general fund budget basis receipts were \$72,460, over the final budget of \$7,003,683. This increase was mostly attributable to increases in tax receipts and tuition and fees. General fund budget basis disbursements were \$765,961 under the final budget of \$7,897,075. This decrease was largely due to decreases in instruction, pupil transportation and operation and maintenance of plant.

Debt Administration

At June 30, 2011, the School District's outstanding debt included \$1,660,000 in Serial and Term Bonds and \$691,907 in Capital Appreciation Bonds issued for improvements to school building and structures. The School District also has \$345,650 outstanding in an Energy Conservation Loan for the purpose of providing Energy Conservation measures for the School District under H.B. 264. For further information regarding the District's debt, refer to Note 9 to the basic financial statements.

Current Issues

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

Real estate and personal property tax collections have shown moderate increases. The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. The overall

**Marion Local School District
Mercer County**

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011*

income generated by a levy will not increase solely as a result of inflation due to Ohio House Bill 920 (passed in 1976). As an example, a homeowner with a home valued at \$100,000 and taxed at 1.0 mill would pay \$35.00 annually in taxes. If three years later, the home was reappraised and increased to \$200,000 (and this inflationary increase in value is comparable to other property owners) the effective tax rate would become .5 mills and the owner would still pay \$35.00.

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

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

The Marion Local School District has not seen any meaningful growth in State funding for three years. How the legislature plans to fund education programs during a weakened economy remains a concern. This year the School District will see a \$220,000 decrease.

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

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

Contacting the School District's Financial Management

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

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Marion Local School District
Mercer County, Ohio
Statement of Net Assets - Cash Basis
June 30, 2011

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash, Cash Equivalents and Investments	<u>\$2,592,994</u>
<i>Total Assets</i>	<u><u>\$2,592,994</u></u>
Net Assets	
Restricted for:	
Debt Service	\$381,467
Capital Outlay	170,436
Other Purposes	786,757
Set Asides	160,735
Unrestricted	<u>1,093,599</u>
<i>Total Net Assets</i>	<u><u>\$2,592,994</u></u>

See accompanying notes to the basic financial statements.

Marion Local School District
Mercer County, Ohio
Statement of Activities - Cash Basis
For the Fiscal Year Ended June 30, 2011

	Cash Disbursements	Program Cash Receipts			Net (Disbursements) Receipts and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities					
Instruction:					
Regular	\$4,194,928	\$312,923	\$75,989	\$0	(\$3,806,016)
Special	942,480	0	252,577	0	(689,903)
Vocational	167,889	0	56,224	0	(111,665)
Other	41,259	0	0	0	(41,259)
Support Services:					
Pupil	220,069	0	5,000	0	(215,069)
Instructional Staff	298,533	0	0	0	(298,533)
Board of Education	34,201	29,016	0	0	(5,185)
Administration	520,186	11,036	2,244	0	(506,906)
Fiscal	267,708	0	0	0	(267,708)
Business	3,133	0	0	0	(3,133)
Operation and Maintenance of Plant	601,689	0	0	0	(601,689)
Pupil Transportation	341,639	9,084	36,425	0	(296,130)
Central	199	0	0	0	(199)
Operation of Food Services	308,088	249,031	57,301	0	(1,756)
Extracurricular Activities	375,004	152,661	0	0	(222,343)
Capital Outlay	18,812	0	0	17,428	(1,384)
Repayment of Debt	342,906	0	0	0	(342,906)
<i>Totals</i>	<u>8,678,723</u>	<u>763,751</u>	<u>485,760</u>	<u>17,428</u>	<u>(7,411,784)</u>
General Receipts					
Property Taxes Levied for:					
General Purposes					2,335,586
Debt Service					313,679
Capital Improvements					73,071
Classroom Facilities and Maintenance					12,966
Grants and Entitlements not Restricted to Specific Programs					4,711,424
Interest					28,133
Miscellaneous					74,594
<i>Total General Receipts</i>					<u>7,549,453</u>
Change in Net Assets					137,669
<i>Net Assets Beginning of Year</i>					<u>2,455,325</u>
<i>Net Assets End of Year</i>					<u><u>\$2,592,994</u></u>

See accompanying notes to the basic financial statements.

MarionLocal School District

Mercer County, Ohio

Statement of Assets and Fund Balances - Cash Basis

Governmental Funds

As of June 30, 2011

	<u>General</u>	<u>Bond Retirement</u>	<u>OSFC Permanent Improvement Maintenance</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets					
Equity in Pooled Cash, Cash Equivalents and Investments	\$1,093,598	\$381,467	\$414,706	\$542,488	\$2,432,259
Restricted Cash and Cash Equivalents	160,735	0	0	0	160,735
<i>Total Assets</i>	<u>\$1,254,333</u>	<u>\$381,467</u>	<u>\$414,706</u>	<u>\$542,488</u>	<u>\$2,592,994</u>
 Fund Balances					
Restricted	160,735	381,467	414,706	422,744	1,379,652
Comitted	0	0	0	119,744	119,744
Assigned	42,522	0	0	0	42,522
Unassigned	1,051,076	0	0	0	1,051,076
<i>Total Fund Balances</i>	<u>1,254,333</u>	<u>381,467</u>	<u>414,706</u>	<u>542,488</u>	<u>2,592,994</u>

See accompanying notes to the basic financial statements.

Marion Local School District
Mercer County, Ohio

Statement of Cash Receipts, Disbursements and Changes in Fund Balances - Cash Basis

Governmental Funds

For the Fiscal Year Ended June 30, 2011

	General	Bond Retirement	OSFC Permanent Improvement Maintenance	Other Governmental Funds	Total Governmental Funds
Receipts					
Property Taxes	\$2,335,586	\$313,680	\$12,965	\$73,071	\$2,735,302
Intergovernmental	4,375,198	50,321	36,426	750,240	5,212,185
Interest	28,133	0	0	659	28,792
Tuition and Fees	322,007	0	0	0	322,007
Rent	11,036	0	0	0	11,036
Extracurricular Activities	0	0	0	181,679	181,679
Customer Sales and Services	0	0	0	249,031	249,031
Miscellaneous	4,183	50,062	0	2,115	56,360
<i>Total Receipts</i>	<u>7,076,143</u>	<u>414,063</u>	<u>49,391</u>	<u>1,256,795</u>	<u>8,796,392</u>
Disbursements					
Current:					
Instruction:					
Regular	3,788,339	0	0	406,589	4,194,928
Special	721,169	0	0	221,311	942,480
Vocational	144,967	0	0	22,922	167,889
Other	41,259	0	0	0	41,259
Support Services:					
Pupil	215,069	0	0	5,000	220,069
Instructional Staff	298,533	0	0	0	298,533
Board of Education	34,201	0	0	0	34,201
Administration	491,014	0	0	29,172	520,186
Fiscal	257,569	7,170	699	2,270	267,708
Business	3,133	0	0	0	3,133
Operation and Maintenance of Plant	563,321	0	38,368	0	601,689
Pupil Transportation	293,717	0	0	47,922	341,639
Central	170	0	0	29	199
Operation of Food Services	0	0	0	308,088	308,088
Extracurricular Activities	236,064	0	0	138,940	375,004
Debt Service:					
Principal	0	255,897	0	0	255,897
Interest	0	87,009	0	0	87,009
Capital Outlay	67	0	2,100	16,645	18,812
<i>Total Disbursements</i>	<u>7,088,592</u>	<u>350,076</u>	<u>41,167</u>	<u>1,198,888</u>	<u>8,678,723</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(12,449)</u>	<u>63,987</u>	<u>8,224</u>	<u>57,907</u>	<u>117,669</u>
Other Financing Sources (Uses)					
Advances In	0	0	0	664	664
Advances Out	(664)	0	0	0	(664)
Transfers In	0	0	0	20,916	20,916
Transfers Out	(20,916)	0	0	0	(20,916)
Refund of Prior Year Disbursements	20,000	0	0	0	20,000
<i>Total Other Financing Sources (Uses)</i>	<u>(1,580)</u>	<u>0</u>	<u>0</u>	<u>21,580</u>	<u>20,000</u>
<i>Net Change in Fund Balances</i>	(14,029)	63,987	8,224	79,487	137,669
<i>Fund Balances Beginning of Year, restated (Note 3)</i>	<u>1,268,362</u>	<u>317,480</u>	<u>406,482</u>	<u>463,001</u>	<u>2,455,325</u>
<i>Fund Balances End of Year</i>	<u><u>\$1,254,333</u></u>	<u><u>\$381,467</u></u>	<u><u>\$414,706</u></u>	<u><u>\$542,488</u></u>	<u><u>\$2,592,994</u></u>

See accompanying notes to the basic financial statements.

Marion Local School District
Mercer County, Ohio

*Statement of Receipts, Disbursements and Changes in Fund Cash Balance -
Budget (Non-GAAP Basis) and Actual - General Fund
For the Fiscal Year Ended June 30, 2011*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$2,270,836	\$2,270,836	\$2,335,586	\$64,750
Intergovernmental	4,252,458	4,360,447	4,375,198	14,751
Tuition and Fees	312,600	312,600	322,007	9,407
Interest	40,300	40,300	28,133	(12,167)
Rent	7,500	7,500	11,036	3,536
Miscellaneous	12,000	12,000	4,183	(7,817)
<i>Total Revenues</i>	<u>6,895,694</u>	<u>7,003,683</u>	<u>7,076,143</u>	<u>72,460</u>
Expenditures				
Current:				
Instruction:				
Regular	4,109,798	4,109,661	3,821,346	288,315
Special	862,065	829,465	728,690	100,775
Vocational	134,743	171,293	144,967	26,326
Other	44,700	52,700	41,259	11,441
Support Services:				
Pupil	225,045	225,970	215,458	10,512
Instructional Staff	313,575	325,925	298,533	27,392
Board of Education	65,487	65,487	34,201	31,286
Administration	569,375	569,375	491,014	78,361
Fiscal	284,882	289,807	257,569	32,238
Business	5,000	5,000	3,157	1,843
Operation and Maintenance of Plant	648,147	648,147	564,902	83,245
Pupil Transportation	335,570	344,465	293,717	50,748
Central	1,450	1,450	170	1,280
Extracurricular Activities	252,330	252,330	236,064	16,266
Capital Outlay				
Site Improvement	5,000	5,000	67	4,933
Architecture and Engineering	1,000	1,000	0	1,000
<i>Total Expenditures</i>	<u>7,858,167</u>	<u>7,897,075</u>	<u>7,131,114</u>	<u>765,961</u>
<i>Excess of Revenues Under Expenditures</i>	<u>(962,473)</u>	<u>(893,392)</u>	<u>(54,971)</u>	<u>838,421</u>
Other Financing Sources (Uses):				
Advances In	40,000	40,000	0	(40,000)
Refund of Prior Year Disbursements	0	0	20,000	20,000
Transfers Out	(52,641)	(52,641)	(20,916)	31,725
Advances Out	(45,000)	(45,000)	(664)	44,336
Refund of Prior Year Receipts	(1,000)	(1,000)	0	1,000
Other Financing Uses	(10,000)	(10,000)	0	10,000
<i>Total Other Financing Sources (Uses)</i>	<u>(68,641)</u>	<u>(68,641)</u>	<u>(1,580)</u>	<u>67,061</u>
<i>Net Change in Fund Balance</i>	(1,031,114)	(962,033)	(56,551)	905,482
<i>Fund Balance Beginning of Year</i>	1,193,612	1,193,612	1,193,612	0
Prior Year Encumbrances Appropriated	74,750	74,750	74,750	0
<i>Fund Balance End of Year</i>	<u>\$237,248</u>	<u>\$306,329</u>	<u>\$1,211,811</u>	<u>\$905,482</u>

See accompanying notes to the basic financial statements.

Marion Local School District
Mercer County, Ohio

*Statement of Receipts, Disbursements and Changes in Fund Cash Balance -
Budget (Non-GAAP Basis) and Actual - OSFC Permanent Improvement Maintenance Fund
For the Fiscal Year Ended June 30, 2011*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$7,205	\$7,205	\$12,965	\$5,760
Intergovernmental	35,300	35,300	36,426	1,126
<i>Total Revenues</i>	<u>42,505</u>	<u>42,505</u>	<u>49,391</u>	<u>6,886</u>
Expenditures				
Support Services:				
Fiscal	1,150	1,150	699	451
Operation and Maintenance of Plant	106,845	106,845	54,029	52,816
Capital Outlay				
Architecture and Engineering	0	5,000	2,000	3,000
Building Acquisition and Construction Services	0	100,000	49,600	50,400
<i>Total Expenditures</i>	<u>107,995</u>	<u>212,995</u>	<u>106,328</u>	<u>106,667</u>
<i>Excess of Revenues Under Expenditures</i>	<u>(65,490)</u>	<u>(170,490)</u>	<u>(56,937)</u>	<u>113,553</u>
<i>Net Change in Fund Balance</i>	(65,490)	(170,490)	(56,937)	113,553
<i>Fund Balance Beginning of Year</i>	399,637	399,637	399,637	0
Prior Year Encumbrances Appropriated	6,845	6,845	6,845	0
<i>Fund Balance End of Year</i>	<u><u>\$340,992</u></u>	<u><u>\$235,992</u></u>	<u><u>\$349,545</u></u>	<u><u>\$113,553</u></u>

See accompanying notes to the basic financial statements.

Marion Local School District
Mercer County, Ohio
Statement of Fiduciary Net Assets - Cash Basis
Fiduciary Funds
June 30, 2011

	<u>Agency</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$96,636</u>
<i>Total Assets</i>	<u><u>\$96,636</u></u>
Liabilities	
Held for Students	<u>\$96,636</u>
<i>Total Net Assets</i>	<u><u>\$96,636</u></u>

See accompanying notes to the basic financial statements.

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**Marion Local School District
Mercer County**

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011*

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

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

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

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

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the 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. There are no component units of the Marion Local School District.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

**Marion Local School District
Mercer County**

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011*

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. Basis of Accounting

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

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

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

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

B. Basis of Presentation - Fund Accounting

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

The Statement of Net Assets presents the financial condition of the governmental activities of the School District at year-end. The Statement of Activities presents a comparison between disbursements and program receipts for each program or function of the School District's governmental activities. Disbursements are those that are specifically associated with a service, program or department, and therefore, clearly identifiable to a particular function. Program receipts include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Receipts, which are not classified as program receipts, are presented as general receipts of the School District with certain limited exceptions. The comparison of disbursements with program receipts identifies the extent to which each business segment or governmental function is self-financing or draws from the general resources of the School District. Governmental activities generally are financed through taxes, intergovernmental receipts, and other non-exchange receipts.

FUND FINANCIAL STATEMENTS

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

**Marion Local School District
Mercer County**

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011*

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

The funds of the financial reporting entity are described below:

Governmental Funds/Governmental Activities

Governmental funds are those through which most governmental functions of the School District are financed. The following are the School District's major governmental funds for fiscal year 2011:

General Fund	The General Fund is the primary operating fund of the School District and always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.
Bond Retirement Fund	The Debt Service Fund is used to account for the accumulation of resources for, and the payment of general long-term and short-term debt principal and interest.
OSFC Permanent Improvement Maintenance Fund	The OSFC Permanent Improvement Maintenance Fund is used for ongoing maintenance of capital projects.

Fiduciary Fund Types

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

C. Budgetary Process

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

**Marion Local School District
Mercer County**

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011*

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

Tax Budget

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

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

Estimated Resources

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

Appropriations

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

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

**Marion Local School District
Mercer County**

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011*

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Encumbrances

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

Lapsing of Appropriations

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

D. Cash and Cash Equivalents

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

For purposes of financial reporting, investments of the 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 considered to be cash equivalents. Investments with an initial maturity of more than three months and which are not purchased with pooled monies are reported as investments.

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

The School District invested in nonnegotiable certificates of deposits and STAROhio. Investments are reported at cost, except for STAROhio. Investments in STAROhio are valued at STAROhio's share price, which is the price the investment could be sold for on June 30, 2011. Investment earnings are allocated as authorized by State statute based upon School District policy.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest receipts credited to the General Fund during fiscal year 2011 were \$28,133, which includes \$13,609 assigned from other School District funds.

E. Restricted Assets

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

**Marion Local School District
Mercer County**

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011*

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Capital Assets

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

G. Accumulated Leave

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

H. Long-Term Debt

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

I. Intergovernmental Receipts

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

J. Inventory and Prepaid Items

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

K. Interfund Activity

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

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

The School District reports advances-in and advances-out for interfund loans. These items are not reflected as assets and liabilities on the accompanying financial statements. At fiscal year ending June 30, 2011 there was \$664 of unpaid interfund cash advances.

L. Employer Contributions to Cost-Sharing Pension Plans

The School District recognizes disbursements for employer contributions to cost-sharing plans when they are paid. As described in Notes 7 and 8, the employer contributions include portions for pension benefits and for postretirement health care benefits.

**Marion Local School District
Mercer County**

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011*

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

M. Equity Classifications

GOVERNMENT-WIDE STATEMENTS

Equity is classified as net assets, and displayed in separate components:

1. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or (2) law through constitutional provisions or enabling legislation. Net assets restricted for other purposes include resources restricted for capital improvements, Federal and State grants restricted to disbursements for specific purposes and food services. As of June 30, 2011, the School District did not have any net assets restricted by enabling legislation.
2. Unrestricted net assets – All other net assets that do not meet the definition of “restricted.”

The School District’s policy is to first apply restricted resources when a cash disbursement is incurred for purposes for which both restricted and unrestricted net assets are available.

FUND FINANCIAL STATEMENTS

Governmental fund equity is classified as 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:

- a. Non-spendable - The non-spendable 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.
- b. 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 is imposed by law through constitutional provisions.
- c. 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.
- d. 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.
- e. 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.

**Marion Local School District
Mercer County**

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011*

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

N. Receipts and Disbursements

Program Receipts

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

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

Disbursements

Governmental activities include the School District's programs and services, including instruction, support services, operation and maintenance of plant (buildings), pupil transportation, extracurricular activities, and food service operations.

O. Implementation of New Accounting Policies

For the year ended June 30, 2011, the School District has implemented Governmental Accounting Standards Board (GASB) Statement No. 54, "*Fund Balance Reporting and Governmental Fund Type Definitions*" and GASB Statement No. 59, "*Financial Instruments Omnibus*."

GASB Statement No. 54 enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The requirements of this statement classify fund balance as nonspendable, restricted, committed, assigned and/or unassigned.

GASB Statement No. 59 updated and improved existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. Implementation of this GASB statement did not affect the presentation of the financial statements of the School District.

NOTE 3 – RESTATEMENT OF FUND BALANCE/NET ASSETS

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.

**Marion Local School District
Mercer County**

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011*

NOTE 3 – RESTATEMENT OF FUND BALANCE/NET ASSETS (continued)

The restatement had the following effect on fund balances as of June 30, 2010:

	General Fund	All Other Governmental Funds
Fund Balance at June 30, 2010	\$ 1,210,667	\$ 520,696
Change in Fund Structure	57,695	(57,695)
Restated Fund Balance at June 30, 2010	\$ 1,268,362	\$ 463,001

NOTE 4 –DEPOSITS AND INVESTMENTS

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

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

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

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

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

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

1. United States treasury notes, bills, bonds, or other obligations or security issued by the United States treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

**Marion Local School District
Mercer County**

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011*

NOTE 4 - DEPOSITS AND INVESTMENTS (continued)

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAROhio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed twenty-five percent of the interim moneys available for investment at any one time;
8. Under certain circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

As of June 30, 2011, the School District had \$1,100 in undeposited cash on hand which is included in the cash and cash equivalents.

Deposits

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

At June 30, 2011, the carrying amount of the School District's deposits was \$2,196,584 and the bank balance was \$2,244,504. Of the bank balance, \$599,000 was covered by federal depository insurance and \$1,645,504 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging institution's trust department not in the School District's name.

**Marion Local School District
Mercer County**

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011*

NOTE 4 - DEPOSITS AND INVESTMENTS (continued)

Investments

Investments, besides STAROhio, are reported at cost basis. STAROhio is reported at the current fair market value. As of June 30, 2011, the School District had the following investments.

	Value as of 6/30/11	Maturities 0 - 1 Year	% of Invested Balance
STAROhio	\$ 491,946	\$ 491,946	100.00%

Interest Rate Risk

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

Credit Risk

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

The School District has no investment policy dealing with investment credit risk beyond the requirements of State statute. The School District's investments in STAROhio are rated AAAM by Standard & Poor's at June 30, 2011.

Concentration Risk

The School District places no limit on the amount the district may invest in any one issuer, however State statute limits investments in commercial paper and bankers' acceptances to 25 percent of the interim monies available for investment at any one time. The School District's total investment portfolio is invested in STAROhio as of June 30, 2011.

NOTE 5 - PROPERTY TAXES

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. The October 2008 tangible personal property tax settlement was the last property tax settlement for general personal property taxes. Tangible personal property taxes received from telephone companies in calendar year 2011 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.

**Marion Local School District
Mercer County**

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011*

NOTE 5 - PROPERTY TAXES (continued)

House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phases out the tax on tangible personal property of general businesses, telephone and telecommunications companies and railroads. The tax on general business and railroad property were eliminated by calendar year 2009, and the tax on telephone and telecommunications property will be eliminated by calendar year 2011. The tax is phased out by reducing the assessment rate on the property each year. The bill replaces the revenue lost by the School District due to the phasing out of the tax. In calendar years 2006-2010, the School District was fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements will be phased out.

Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, 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.

Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20.

The School District receives property taxes from Auglaize, Darke and Mercer Counties. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the Counties 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.

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	\$76,933,480	99.59%	\$78,525,350	97.75%
Public Utility	319,320	.41	1,809,920	2.25
Total Assessed Value	\$77,252,800	100.00%	\$80,335,270	100.00%
Tax rate per \$1,000 of assessed valuation	\$40.25		\$39.05	

NOTE 6 - RISK MANAGEMENT

A. Property and Liability

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2011, the School District contracted with Netherlands Insurance Company for the following insurance coverage:

Buildings and Contents – replacement cost	\$ 25,473,530
General Liability	
Per Occurrence	1,000,000
Aggregate	2,000,000
Automobile Liability	1,000,000
Uninsured Motorists	1,000,000

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

**Marion Local School District
Mercer County**

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011*

NOTE 6 - RISK MANAGEMENT (continued)

B. Workers' Compensation

The School District participates in the Ohio Association of School Business Officials Workers' Compensation Group Rating Plan (the "Plan"), an insurance purchasing pool. The intent of the Plan is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the Plan. The third party administrator, Comp Management, reviews each participant's claims experience and determines the rating tier for that participant. A common premium rate is applied to all participants in a given rating tier. Each participant pays its workers' compensation premium to the State based on the rate for their rating tier rather than its individual rate. Comp Management provides administrative, cost control and actuarial services to the Plan.

Health Care Benefits

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

NOTE 7 - DEFINED BENEFIT PENSION PLANS

A. State Teachers Retirement System

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 is a statewide retirement plan for licensed teachers and other faculty members employed in the public schools of Ohio or any school, community school, college, university, institution or other agency controlled, managed and supported, in whole or in part, by the state or any political subdivision thereof.

Plan Options – New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC Plan allows members to allocate all their member contributions and employer contributions equal to 10.5 percent of earned compensation among various investment choices. The Combined Plan offers features of the DC Plan and the DB Plan. In the Combined Plan, member contributions are allocated to investment choices by the member, and employer contributions are used to fund a defined benefit payment at a reduced level from the regular DB Plan. Contributions into the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. DC and Combined Plan members will transfer to the DB Plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

DB Plan Benefits – Plan benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the "formula benefit" or the "money-purchase benefit" calculation. Under the "formula benefit," the retirement allowance is based on years of credited service and final average salary which is the average of the member's three highest salary years. The annual allowance is calculated by using a base percentage of 2.2

**Marion Local School District
Mercer County**

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011*

NOTE 7 - DEFINED BENEFIT PENSION PLANS (continued)

percent multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31st year of earned Ohio service credit is calculated at 2.5 percent. An additional one-tenth of a percent is added to the calculation for every year of earned Ohio service over 31 years (2.6 percent for 32 years, 2.7 percent for 33 years and so on) until 100 percent of final average salary is reached. For members with 35 or more year of Ohio contributing service, the first 30 years will be calculated at 2.5 percent instead of 2.2 percent. Under the “money-purchase benefit” calculation, a member’s lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

DC Plan Benefits – Benefits are established under Sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate of 10.5 percent are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. A member is eligible to receive retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump-sum withdrawal. Employer contributions into members’ accounts are vested after the first anniversary of the first day of paid service. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member’s designated beneficiary is entitled to receive the member’s account balance.

Combined Plan Benefits – Member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment. A member’s defined benefit is determined by multiplying 1 percent of the member’s final average salary by the member’s years of service credit. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

A retiree of STRS Ohio or another public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65 whichever comes later, the retiree is eligible for an annuity benefit or equivalent lump-sum payment in addition to the original retirement allowance. A reemployed retiree may alternatively receive a refund of only member contributions with interest before age 65, once employment is terminated.

Benefits are increased annually by 3 percent of the original base amount for DB Plan participants.

The DB and Combined Plans offer access to health care coverage to eligible retirees who participated in the plans and their eligible dependents. Coverage under the current program includes hospitalization, physicians’ fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. By Ohio law, health care benefits are not guaranteed.

A DB or Combined Plan member with five or more years’ credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of members who die before retirement may qualify for survivor benefits. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the DV Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to members’ beneficiaries.

Chapter 3307 of the Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers.

**Marion Local School District
Mercer County**

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011*

NOTE 7 - DEFINED BENEFIT PENSION PLANS (continued)

The School District's required contributions for pension obligations to the STRS for the fiscal years ended June 30, 2011, 2010 and 2009 were \$481,906, \$486,252 and \$475,310, respectively; 83 percent has been contributed for fiscal year 2011 and 100 percent for the fiscal years 2010 and 2009. Contributions to the DC and Combined Plans for fiscal year 2011 were \$7,066 made by the School District and \$5,047 made by the plan members.

STRS Ohio issues a stand-alone financial report. Additional information or copies of STRS Ohio's 2010 *Comprehensive Annual Financial Report* can be requested by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling toll-free 1-888-227-7877, or by visiting the STRS Ohio website at www.strsoh.org.

B. School Employees Retirement System

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

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 requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund) of the System. For fiscal year 2011, it was determined the employer contribution rate to pension and death benefits to be 11.81 percent. The remaining 2.19 percent of the 14 percent employer contribution rate was allocated to the Health Care and Medicare B Funds.

The School District's pension contributions to SERS for the years ended June 30, 2011, 2010 and 2009 were \$94,092, \$101,814 and \$63,613, respectively. The School District has paid all contributions required through fiscal year 2011.

C. Social Security System

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

NOTE 8 - POST EMPLOYMENT BENEFITS

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

**Marion Local School District
Mercer County**

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011*

NOTE 8 - POST EMPLOYMENT BENEFITS (continued)

A. State Teachers Retirement System

All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. Of the 14 percent employer contribution rate, one percent of covered payroll was allocated to post-employment health care for the years ended June 30, 2011, 2010 and 2009. The 14 percent employer contribution rate is the maximum rate established under Ohio law. The School District's contributions for post employment health care for fiscal years ended June 30, 2011, 2010 and 2009 were \$37,070, \$37,404 and \$36,922, respectively; 83 percent has been contributed for fiscal year 2011 and 100 percent for the fiscal years 2010 and 2009.

B. School Employees Retirement System

Medicare Part B Plan

In addition to a cost-sharing multiple-employer defined benefit pension plan, SERS administers two postemployment benefit plans, the Medicare Part B Plan and the Health Care Plan. The Medicare B plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code (ORC) 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2011 was \$96.40; SERS' reimbursement to retirees was \$45.50. The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund. For fiscal year 2011, the actuarially required allocation was 0.76 percent. The School District's contributions for the fiscal years ended June 30, 2011, 2010 and 2009 were \$6,055, \$6,055 and \$5,249, respectively, which equaled the required contributions each year.

Health Care Plan

ORC 3309.375 and 3309.69 permit SERS to offer health care benefits to eligible retirees and beneficiaries. SERS' Retirement Board reserves the right to change or discontinue any health plan or program. SERS offers several types of health plans from various vendors, including HMO's, PPO's, Medicare Advantage and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The ORC provides the statutory authority to fund SERS' postemployment benefits through employer contributions. Active members do not make contributions to the postemployment benefit plans.

The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code 105 (e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14 percent contribution to the Health Care Fund. At June 30, 2011, the health care allocation was 1.43 percent.

An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. State law provides that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2011, the minimum compensation level was established at \$35,800. The surcharge added to the unallocated portion of the 14 percent employer contribution is the total amount assigned to the Health Care Fund. The School District's contributions assigned to health care fund for the fiscal years ended June 30, 2011, 2010, and 2009 were \$26,686, \$14,849 and \$29,112, respectively. The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility and retirement status.

**Marion Local School District
Mercer County**

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011*

NOTE 8 - POST EMPLOYMENT BENEFITS (continued)

The financial reports of SERS' Health Care and Medicare B plans are included in its Comprehensive Annual Financial Report. The report can be obtained by contacting SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on SERS' website at www.ohsers.org under Employers/Audit Resources.

NOTE 9 - LONG-TERM OBLIGATIONS

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

General Long-Term Obligations	Interest Rate	Outstanding 6/30/10	Additions	Deductions	Outstanding 6/30/11	Due Within 1 Year
General Obligation Bonds						
2006 Refunding Bonds						
Serial and Term Bonds	4.0-4.13%	\$ 1,825,000	\$ 0	\$ 165,000	\$ 1,660,000	\$ 175,000
Capital Appreciation Bonds	4.3-4.35%	349,995	0	0	349,995	0
Capital Bonds Accretion		143,558	46,240	0	189,798	0
2000 School Improvement						
Serial and Term Bonds	4.4-5.75%	60,000	0	60,000	0	0
Capital Appreciation Bonds	12.20%	40,589	0	0	40,589	0
Capital Bonds Accretion		95,277	16,248	0	111,525	0
1993 Asbestos Removal Loan	0.00%	4,307	0	4,307	0	0
HB 264 Energy Project Note	4.21%	372,240	0	26,590	345,650	26,590
Total General Obligation Debt		<u>\$2,890,966</u>	<u>\$ 62,488</u>	<u>\$255,897</u>	<u>\$2,697,557</u>	<u>\$ 201,590</u>

2006 Refunding Bonds - On August 29, 2006, the School District refinanced \$2,664,996 in prior bond issues; \$730,000 of the 2000 issue was refinanced and \$1,934,996 of the 1997 issue was refinanced. The bond issue includes serial, term, and capital appreciation bonds in the amount of \$1,695,000, \$620,000 and \$349,995, respectively. The bonds are being retired from the Bond Retirement debt service fund. The economic gain from refunding the bonds totaled \$127,430.

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

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

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

The capital appreciation bonds will mature in fiscal years 2015 through 2017 and are not subject to redemption prior to maturity. The maturity amount of the bonds is \$800,000. For fiscal year 2011, \$46,240 was accreted for a total capital appreciation bond value of \$539,793.

**Marion Local School District
Mercer County**

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011*

NOTE 9 - LONG-TERM OBLIGATIONS (continued)

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

The serial and term bonds were repaid during fiscal year 2011.

The capital appreciation bonds will mature in fiscal years 2011 through 2013 and are not subject to redemption prior to maturity. The maturity amount of the bonds is \$180,000. For fiscal year 2011, \$16,248 was accreted for total bond value of \$152,114.

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

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

The School District's overall debt margin was \$5,259,732 with an unvoted debt margin of \$80,335 at June 30, 2011.

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

Fiscal Year Ending June 30,	2000 General Obligation Bonds		2006 Refunding Bonds		Interest / Accretion	Total
	Capital Appreciation Bonds	Serial and Term Bonds	Capital Appreciation Bonds	HB 264		
2012	\$ 0	\$ 175,000	\$ 0	\$ 26,590	\$ 122,407	\$ 339,157
2013	15,160	185,000	0	26,590	115,744	340,800
2014	13,466	190,000	0	26,590	108,627	337,180
2015	11,963	0	128,587	26,590	197,083	352,260
2016	0	0	115,243	26,590	204,334	346,167
2017-2021	0	915,000	106,165	132,950	286,101	1,440,216
2022-2024	0	195,000	0	79,750	14,026	288,776
	<u>\$ 40,589</u>	<u>\$1,660,000</u>	<u>\$ 349,995</u>	<u>\$345,650</u>	<u>\$ 1,048,322</u>	<u>\$3,444,556</u>

**Marion Local School District
Mercer County**

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011*

NOTE 10 – 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:

	General	Bond Retirement Funds	OFSC Permanent Improvement Maintenance Fund	Other Governmental	Total Governmental
Restricted for:					
Permanent Improvements	\$ 0	\$ 0	\$ 414,706	\$ 170,436	\$ 585,142
Debt Service	0	381,467	0	0	381,467
Textbooks and Materials	160,735	0	0	0	160,735
Food Service Operations	0	0	0	100,279	100,279
Athletics	0	0	0	131,251	131,251
Bus Purchase	0	0	0	1,952	1,952
Regular Instruction	0	0	0	2,910	2,910
Underground storage Tank	0	0	0	3,143	3,143
Technology improvements	0	0	0	10,493	10,493
Race to the Top	0	0	0	288	288
Vocational/Ag Instruction	0	0	0	1,992	1,992
Total Restricted	<u>160,735</u>	<u>381,467</u>	<u>414,706</u>	<u>422,744</u>	<u>1,379,652</u>
Committed to:					
Severance and Termination	0	0	0	105,625	105,624
Educational Activities	0	0	0	14,119	14,119
Total Committed	<u>0</u>	<u>0</u>	<u>0</u>	<u>119,744</u>	<u>119,744</u>
Assigned to:					
Unpaid Obligations	42,522	0	0	0	42,522
Total Assigned	<u>42,522</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>42,522</u>
Unassigned	<u>1,051,076</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1,051,076</u>
Total Fund Balance	<u><u>\$1,254,333</u></u>	<u><u>\$ 381,467</u></u>	<u><u>\$ 414,706</u></u>	<u><u>\$542,488</u></u>	<u><u>\$2,592,994</u></u>

NOTE 11 - STATUTORY RESERVES

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

The following cash basis information identifies the changes in the fund balance reserves for textbooks and capital improvements during fiscal year 2011:

**Marion Local School District
Mercer County**

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011*

NOTE 11 - STATUTORY RESERVES (continued)

	Capital Improvement Reserve	Textbook Instructional Materials Reserve
	<u> </u>	<u> </u>
Set Aside Reserve Balance June 30, 2010	\$ 171,169	\$ 0
Current Year Set-Aside Requirement	145,824	145,824
Current Year Qualifying Expenditures	(156,258)	0
Excess Qualified Expenditures from Prior Years	0	(59,787)
Current Year Offsets	<u>0</u>	<u>(86,037)</u>
Total	<u>\$ 160,735</u>	<u>\$ 0</u>
Balance Carried Forward to Fiscal Year 2012	<u>\$ 160,735</u>	<u>\$ 0</u>
Set Aside Reserve Balance June 30, 2011	<u>\$ 160,735</u>	<u>\$ 0</u>

The School District had authorized offsets and qualifying expenditures during the fiscal year that reduced the capital maintenance set aside amount below zero. For the capital maintenance reserve, only the extra amount, which was a result of bond proceeds for capital disbursements, can be used to reduce the set-aside requirements of future years. Effective July 1, 2011, the textbook set-aside laws have been repealed.

NOTE 12- JOINTLY GOVERNED ORGANIZATIONS

Northwest Ohio Area Computer Services Cooperative - The School District is a participant in the Northwest Ohio Area Computer Services Cooperative (“NOACSC”), which is a computer consortium. NOACSC is an association of public school districts within the boundaries of Allen, Hancock, Mercer, Paulding, Putnam, and Van Wert Counties, and the Cities of St. Mary’s and Wapakoneta. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of NOACSC consists of two representatives from each county elected by majority vote of all charter member school districts within each county. During fiscal year 2011, the School District paid \$13,710 to NOACSC for various services. Financial information can be obtained from Raymond Burden, who serves as Director, 645 South Main Street, Lima, Ohio 45804.

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

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

**Marion Local School District
Mercer County**

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011*

NOTE 13- GROUP PURCHASING POOL

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

Mercer Auglaize Employee Benefit Trust - The Mercer Auglaize Employee Benefit Trust ("Trust") is a public entity shared risk pool consisting of eleven local school districts and two educational service centers. The Trust is organized as a Voluntary Employee Benefit Association under Section 501(c)(9) of the Internal Revenue Code and provides medical, prescription drug, and dental benefits to the employees of the participants. Each participant's superintendent is appointed to an Administrative Committee, which advises the Trustee, Huntington Bank, concerning aspects of the administration of the Trust. Each participant decides which plans offered by the Administrative Committee will be extended to its employees. Participation in the Trust is by written application subject to acceptance by the Administrative Committee and payment of the monthly premiums. Financial information can be obtained from Glenn Szana at Group Health Care Consultants, 1616 East Wooster #20, Bowling Green, Ohio 43402.

NOTE 14 - INTERFUND ACTIVITY

During fiscal year 2011, the School District made transfers and advances between funds as follows:

	<u>Transfers-In</u>	<u>Transfers-Out</u>	<u>Advances-In</u>	<u>Advances-Out</u>
Governmental:				
General Fund	\$ 0	\$ 20,916	\$ 0	\$ 664
All Other Governmental Funds	20,916	0	664	0
Total	<u>\$ 20,916</u>	<u>\$ 20,916</u>	<u>\$ 664</u>	<u>\$ 664</u>

Transfers were made by the General Fund to move unrestricted balances to the Termination Benefits Fund to cover obligations. The General Fund also advanced \$664 to the Race to the Top Grant Fund to cover expenditures while awaiting reimbursement from granting authorities.

NOTE 15 - CONTINGENCIES

Grants

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

NOTE 16 - LEASES

The School District is obligated under an operating lease agreement with Perry Corporation for printers. This agreement does not give rise to property rights. The lease is for a term of 63 months at \$455.52 per month (including principal and interest) and began October 2007. \$5,466 was paid toward the lease during fiscal year 2011.

**Marion Local School District
Mercer County**

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011*

NOTE 17 - CONTRACTUAL COMMITMENTS

At June 30, 2011, the School District had the following outstanding contractual commitment:

<u>Contractor/Vendor</u>	<u>Description</u>	<u>Contractual Commitment</u>	<u>Balance</u>
Shin Brothers, Inc.	Sewage Hook-up to County System, Demolition & Removal of Old Plant	\$ 49,500	\$ 49,500

NOTE 18 – BUDGETARY BASIS OF ACCOUNTING

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Statement of Receipts, Disbursements and Changes in Fund Balance – Budget and Actual – Budget Basis presented for the general fund is prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference between the budgetary basis and the cash basis is outstanding year end encumbrances which are treated as cash disbursements (budgetary basis) rather than as assigned fund balance (modified cash basis).

The encumbrances outstanding at year end (budgetary basis) amounted to:

General Fund	\$42,522
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NOTE 19 – ACCOUNTABILITY AND COMPLIANCE

Ohio Adm. Code Section 117-2-03(B) requires the School District to file annual financial reports, which are prepared using generally accepted accounting principles (GAAP). For fiscal year 2011, the School District prepared financial statements that, although formatted similar to financial statements prescribed by Governmental Accounting Standards Board Statement No. 34, report on the basis of cash receipts and cash disbursements, rather than GAAP. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. Pursuant to Ohio Rev. Code Section 117.38, the School District may be fined and subject to various other administrative remedies for its failure to file the required financial report.

Marion Local School District
Mercer County
Schedule of Federal Awards, Receipts and Expenditures
For the Fiscal Year Ended June 30, 2011

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
<u>U.S. DEPARTMENT OF AGRICULTURE</u>					
<i>Passed Through the Ohio Department of Education:</i>					
Secondary and Two-Year Postsecondary Agriculture Grants	10.226	24,914	0	24,914	0
Child Nutrition Cluster:					
Non-Cash Assistance (Food Distribution)					
National School Lunch Program	10.555	\$ 0	\$ 35,917	\$ 0	\$ 35,917
Cash Assistance:					
National School Lunch Program	10.555	51,285	0	51,285	0
Total Nutrition Cluster		<u>51,285</u>	<u>35,917</u>	<u>51,285</u>	<u>35,917</u>
Total U.S. Department of Agriculture		<u>76,199</u>	<u>35,917</u>	<u>76,199</u>	<u>35,917</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>					
<i>Passed Through the Ohio Department of Education:</i>					
Title I Cluster:					
Title I Grants to Local Educational Agencies	84.010	22,118	0	22,118	0
Education Technology State Grants	84.318	74	0	74	0
Special Education Grants to States - ARRA	84.391	58,997	0	67,727	0
State Fiscal Stabilization Fund - ARRA	84.394	342,129	0	342,129	0
Improving Teacher Quality Grants	84.367	19,514	0	19,514	0
Race to the Top Grant	84.395	<u>13,419</u>	<u>0</u>	<u>13,419</u>	<u>0</u>
Total U.S. Department of Education		<u>456,251</u>	<u>0</u>	<u>464,981</u>	<u>0</u>
Total Federal Assistance		<u>\$ 532,450</u>	<u>\$ 35,917</u>	<u>\$ 541,180</u>	<u>\$ 35,917</u>

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

Marion Local School District
Mercer County

Notes to the Schedule of Federal Awards, Receipts and Expenditures
For the Fiscal Year Ended June 30, 2011

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – CHILD NUTRITION CLUSTER

Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first.

NOTE C – FOOD DONATION PROGRAM

Program regulators do not require the School District to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. This non-monetary assistance (expenditures) is reported in the Schedule at the fair market value of the commodities received.

NOTE D – MATCHING REQUIREMENTS

Certain Federal programs require the School District to contribute non-Federal funds (matching funds) to support the Federally-funded programs. The School District has met its matching requirements. The schedule does not include the expenditures of non-Federal matching funds.

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Marion Local School District, Mercer County, (the District), as of and for the fiscal year ended June 30, 2011, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 19, 2011, wherein we noted the District presented financial statements on the cash basis of accounting rather than in accordance with accounting principles generally accepted in the United States of America. We also 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 a 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 identified 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 an instance of noncompliance or other matters that we must report under *Government Auditing Standards*, which is described in the accompanying schedule of findings as item 2011-001.

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

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

Manning & Associates CPAs, LLC
Dayton, Ohio

December 19, 2011

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

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

To the Board of Education:

Compliance

We have audited the compliance of Marion Local School District (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 Marion Local 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 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 express an opinion on the District's compliance based on our audit.

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

In our opinion, the Marion Local School District, Mercer County, 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.

Marion Local School District
Mercer County

Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Federal
Program and on Internal Control Over Compliance with Accordance with *OMB Circular A-133*

Page 2

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 School District's internal control over compliance with requirements that could directly and materially affect a major federal program in order to determine our auditing procedures for the purpose for the purpose of opining on compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the District's internal control over compliance.

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

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

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

Manning & Associates CPAs, LLC
Dayton, Ohio

December 19, 2011

Marion Local School District
Mercer County
Schedule of Findings
OMB Circular A-133 § .505
June 30, 2011

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
(d)(1)(iv)	Were there any other significant deficiencies in internal control reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	CFDA #84.394: State Fiscal Stabilization Fund CFDA
(d)(1)(vi)	Dollar Threshold: Type A/B Programs	Type A: > \$300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

Marion Local School District
Mercer County
Schedule of Findings
OMB Circular A-133 § .505
June 30, 2011

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

FINDING NUMBER 2011-001

Noncompliance Citation
GAAP Reporting

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

Ohio Adm. Code Sec. 117-2-03 (B) requires the School District to prepare its annual financial report in accordance with generally accepted accounting principles (GAAP).

For 2011, the School District prepared its financial statements, although formatted similar to financial statements prescribed by Governmental Accounting Standards Board Statement No. 34, report on the cash basis of accounting. This presentation differs from accounting principles generally accepted in the United States of America (GAAP). The accompanying financial statements omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. Pursuant to Ohio Rev. Code Section 117.38 the School District may be fined and subject to various other administrative remedies for its failure to file the required financial report.

To help provide the users with more meaningful financial statements, the District should prepare their financial statements in accordance with generally accepted accounting principles.

Response: The Board of Education unanimously agreed to approve filing on GASB 34 cash basis year-end reports. Due to the continuous pressure to minimize cost under the current school funding system, the Board has agreed that costs associated with generating and auditing the reports on a GAAP basis exceeds the benefits received by filing GAAP financial reports.

Marion Local School District
Mercer County
Schedule of Findings
OMB Circular A-133 § .505
June 30, 2011

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.

Marion Local School District
Mercer County
Schedule of Prior Audit Findings
June 30, 2011

Finding Number	Finding Summary	Fully Corrected	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No <u>Longer Valid</u> ; Explain
2010-001	Financial statement reported in accordance with GAGAS	No	Reissued as finding 2011-001

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Independent Auditors' Report on Applying Agreed-Upon Procedure

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

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 Local School District, (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.¹ 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 November 9, 2010 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.

Manning & Associates, CPAs LLC

December 19, 2011

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Dave Yost • Auditor of State

MARION LOCAL SCHOOL DISTRICT

MERCER COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
APRIL 12, 2012**