

Marion City School District

Marion County, Ohio

Financial Statements
and Independent Auditor's Reports

June 30, 2005





**Auditor of State
Betty Montgomery**

Board of Education
Marion City School District
910 East Church St.
Marion, OH 43302

We have reviewed the *Independent Auditor's Report* of the Marion City School District, Marion County, prepared by Kennedy Cottrell & Associates, LLC, for the audit period July 1, 2004 through June 30, 2005. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

May 8, 2006

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**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

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INDEPENDENT AUDITOR'S REPORT

Marion City School District
To the Board of Education of the Marion City School District

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the Marion City School District, Marion County, Ohio (the District) as of and for the year ended June 30, 2005, 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.

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

We were not able to obtain sufficient competent evidential matter supporting the District's capital assets balance reported in the District's basic financial statements; nor were we able to satisfy ourselves as to the reported accumulated depreciation and current period depreciation expense.

In our opinion, except for the effects of such adjustments, if any, as might have been determined necessary had we been able to examine evidence regarding the District's capital assets, accumulated depreciation, and current period depreciation expense, the financial statements referred to in the first paragraph above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, and the aggregate remaining fund information of the District as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof, and for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In addition, in our opinion, the financial statements referred to in the first paragraph above present fairly, in all material respects, the financial position of each major fund of the District as of June 30, 2005, and the respective changes in financial position thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 19, during the year ended June 30, 2005, the District implemented GASB Technical Bulletin No. 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expense and Liability by Cost-Sharing Employers."

In accordance with *Government Auditing Standards*, we have also issued our report dated March 10, 2006, 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. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The accompanying management's discussion and analysis is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

We conducted our audit to form opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying schedule of receipts and expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Kennedy, Cottrell + Associates LLC |

Kennedy, Cottrell + Associates LLC
Columbus, Ohio
March 10, 2006

Marion City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005

Unaudited

The discussion and analysis of Marion City School District's (the "School District") financial performance provides an overall view of the School District's financial activities for the fiscal year ended June 30, 2005. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School District's financial performance.

Based on a May 2004 five year forecast which anticipated deficits for both fiscal years 2004 and 2005, the Ohio Department of Education placed the School District in fiscal caution pursuant to the Ohio Revised Code. In June 2004, the Auditor of State initiated a performance audit of the School District and place the School District in fiscal watch.

Major revenue factors contributed to the School District's bleak financial projections including the failure to renew a 3.9 mill levy and the fact that no levies have been passed for new operating money since 1995. Also, new development within the School District boundaries is very limited and property values have stagnated. The School District has also experienced significant reductions in state revenues, due both to declining student population and statewide reductions in the funding formula resulting from Ohio's economic crisis. Increased utility costs related to construction mandates in facilities, double-digit health care increases, and state spending requirements for textbook purchases contributed to the School District fiscal crisis.

During this fiscal year, many hard decisions about staffing and educational programs had to be made to regain financial stability. Since fiscal year 2003, 67 positions or 10 percent of its workforce has been reduced. The School District has effectively minimized facilities-related expenditures for purchased services, as well as supplies and materials. Excluding utilities, the School District has reduced expenditures for purchased services and supplies and are now below other schools of its size. The School District has significantly improved its food service information systems. It has developed an internal program to replace its vendor software, resulting in implementation ahead of schedule and below original cost estimates.

Although not out of financial distress, the School District's implementation of Board of Education and Auditor of State's recommendations, the School District did have results that impacted positively on fiscal year 2005. Below are highlights of some of the financial aspects of this fiscal year.

Financial Highlights

Key financial highlights for 2005 are as follows:

- Net assets of governmental activities increased \$5,197,918 while net assets of business-type activities also increased \$143,598. On the full accrual basis capital outlay of \$7,604,608 was capitalized instead of expensed and is the reason for the positive change in net assets.
- General revenues accounted for \$40,183,201 in revenue or 77.89% of all revenues. Program specific revenues in the form of charges for services, grants and contributions accounted for \$11,408,627 or 22.11% of total revenues of \$51,591,828.
- The School District had \$46,393,910 in expenses related to government activities; \$11,408,627 of these expenses was offset by program specific charges for services, grants and contributions. General revenues were not adequate to provide for these programs.
- The School District had \$1,973,506 in expenses related to business-type activities. Program revenues of \$1,886,891 were not adequate to provide for this service.

Marion City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005

Unaudited

- Capital outlay additions of \$7,604,608 consisted of \$5,560,692 in building construction and improvements, \$2,018,567 in furniture and equipment and \$25,349 in school buses and vehicles.
- The Classroom Facilities Capital Project Fund will be closed soon with almost all completion of the new schools and renovation made. The fund accounted for over \$90,000,000 in construction and now has a small fund balance of \$353,172

Using this Annual Financial Report

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

The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. Fund financial statements provide 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. For Marion City School District, the general fund is by far the most significant fund, with the Classroom Facilities Fund being the only other major fund.

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 2005?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets* and *liabilities* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the School District's *net assets* and changes in those assets. This change in net assets is important because it tell 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 may be the result of many factors, some financial, some not. Non-financial factors include the School District's property tax base, current property laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

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

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

Marion City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005

Unaudited

Reporting the School District's Most Significant Funds

Fund Financial Statements

Fund financial statements provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of 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 and the classroom facilities 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 an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* that can readily be converted into cash. The governmental fund statements provide a detailed *short-term view* of the 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. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the financial statements.

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

The School District as a Whole

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

Table 1 provides a summary of the School District's net assets for 2005 compared to 2004:

Marion City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005

Unaudited

Table 1
 Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Assets						
Current Assets	\$ 19,115,729	\$ 21,899,754	\$ (15,202)	\$ (176,471)	\$ 19,100,527	\$ 21,723,283
Capital Assets	96,564,489	92,724,192	46,046	48,686	96,610,535	92,772,878
Total Assets	\$ 115,680,218	\$ 114,623,946	30,844	(127,785)	\$115,711,062	\$114,496,161
Liabilities						
Current Liabilities	\$ 13,524,719	\$ 16,378,167	241,228	215,598	\$ 13,765,947	\$ 16,593,765
Long-Term Liabilities	18,048,810	18,622,650	70,282	80,881	18,119,092	18,703,531
Total Liabilities	\$ 31,573,529	\$ 35,000,817	311,510	296,479	\$ 31,885,039	\$ 35,297,296
Net Assets						
Invested in Capital Assets, Net of Debt	\$ 81,760,357	\$ 77,274,157	\$ 46,046	\$ 48,686	\$ 81,806,403	\$ 77,322,843
Restricted	3,358,943	3,040,676	-	-	3,358,943	3,040,676
Unrestricted (Deficit)	(1,012,611)	(691,704)	(326,712)	(472,950)	(1,339,323)	(1,164,654)
Total Net Assets	\$ 84,106,689	\$ 79,623,129	\$ (280,666)	\$ (424,264)	\$ 83,826,023	\$ 79,198,865

Table 2 shows the changes in net assets for fiscal year 2005 compared to fiscal year 2004:

Marion City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005

Unaudited

Table 2

	Governmental Activities			Business Type Activities		
	2005	2004	Variance	2005	2004	Variance
Program Revenues:						
Charges for Services	\$ 2,154,028	\$ 1,823,906	\$ 330,122	\$ 733,569	\$ 777,116	\$ (43,547)
Operating Grants & Contributions	5,486,709	4,597,659	889,050	1,153,322	1,094,396	58,926
Capital Grants and Contributions	3,767,890	19,580,526	(15,812,636)	-	-	-
General Revenues and Transfers:						
Property Taxes	11,824,250	11,839,326	(15,076)	-	-	-
Grants and Entitlements	26,515,615	26,965,053	(449,438)	-	-	-
Payment in Lieu of Taxes	1,598,614	-	1,598,614	-	-	-
Unrestricted Investment Earnings	156,843	473,528	(316,685)	-	-	-
Unrestricted Contributions	55,558	-	55,558	-	-	-
Gain on Disposal of Assets	86,245	30,524	55,721	-	-	-
Miscellaneous	166,937	46,984	119,953	9,352	1,002	8,350
Transfers	(220,861)	-	(220,861)	220,861	-	220,861
Total Revenues and Transfers	51,591,828	65,357,506	(13,765,678)	2,117,104	1,872,514	244,590
Expenses						
Program Expenses:						
Instruction:						
Regular	21,860,738	24,013,102	2,152,364	-	-	-
Special	5,664,401	5,611,407	(52,994)	-	-	-
Vocational	455,889	599,778	143,889	-	-	-
Adult/Continueing	88,763	99,166	10,403	-	-	-
Other	198,404	166,525	(31,879)	-	-	-
Support Services:						
Pupils	2,094,960	2,227,694	132,734	-	-	-
Instructional Staff	2,398,664	2,129,931	(268,733)	-	-	-
Board of Education	111,738	140,575	28,837	-	-	-
Administration	3,448,266	3,821,573	373,307	-	-	-
Fiscal	536,378	573,401	37,023	-	-	-
Business	365,753	294,866	(70,887)	-	-	-
Operation of Maintenance of Plant	4,151,896	4,117,943	(33,953)	-	-	-
Pupil Transportation	667,897	741,723	73,826	-	-	-
Non-Instructional Services	926,751	586,470	(340,281)	-	-	-
Extracurricular Activities	707,113	720,392	13,279	-	-	-
Facilities Construction Services	1,895,590	2,297,082	401,492	-	-	-
Interest and Fiscal Charges	820,709	834,097	13,388	-	-	-
Food Service	-	-	-	1,911,354	2,135,472	224,118
Uniform School Supplies	-	-	-	14,507	14,015	(492)
Adult Education	-	-	-	47,645	30,412	(17,233)
Total Expenses	46,393,910	48,975,725	2,581,815	1,973,506	2,179,899	206,393
Change in Net Assets	\$ 5,197,918	\$ 16,381,781	\$ (11,183,863)	\$ 143,598	\$ (307,385)	\$ 450,983

Marion City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005

Unaudited

Governmental Activities

Net assets of the School District's governmental activities increased by \$5,197,918. Program revenue of \$11,408,627 and general revenues of \$40,183,201 offset total governmental expenses of \$46,393,910, mainly, because capital grants are received and are matched only to depreciation expense for the year. Capital Asset construction is capitalized and is not an expense, and therefore, the large increase of over \$7.6 million. Program revenues supported 24.6% of the total governmental expenses.

The School District's governmental activities are primarily funded by property tax and state foundation revenues. During fiscal year 2005, property taxes and grants and entitlements, such as school foundation, represented 74.3% of the total governmental revenue, generating 22.9% and 51.4%, respectively.

The Classroom Facilities Fund which has shown the major construction and renovation expenses of the new elementary and high school and how the projects were financed is coming to an end. The net fund balance of this major fund, besides the general fund, is \$353,172. This fund will be completely eliminated next year.

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

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

Instruction costs comprise 60.9% of governmental program expenses.

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

Business-Type Activities

Business-type activities consist of the food service, uniform school supplies, and adult education operations. These programs had revenue of \$1,807,553, \$21,084 and \$58,254 with expenses of \$1,911,354, \$14,507 and \$47,645, respectively.

The School District's Funds

The School District's major funds are accounted for using the modified accrual basis of accounting. The total revenues for governmental funds were \$51,794,276 and total expenditures were \$50,981,001. The School District revenue exceeded the expenditures by \$813,275. This was a turn around compared to last year.

The School District's general fund balance increased by \$1,246,869. The increase in fund balance can be attributed primarily to the overall decrease in salaries, wages and fringe benefits due to lay offs.

Marion City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005

Unaudited

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 School District's general fund.

During fiscal year 2005, the School District amended its general fund budget. Budget revisions are presented to the Board of Education for approval. This year amendments were considered routine.

For the general fund, the final budget basis revenue estimate was \$39,234,739 compared to the original revenue estimate of \$39,159,739. Actual revenue on the budget basis was \$40,829,058.

The original expenditures estimate of \$39,963,352 was the same as the final appropriation.. The actual expenditures were \$39,326,792.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2005, the School District had \$96,610,535 invested in land, buildings, equipment and vehicles. This is accounting for both Governmental Activities and Business-Type Activities assets. Table 3 below shows a comparison of fiscal year 2005 to 2004.

Table 3
 Capital Assets as of June 30, 2005
 (Net of Depreciation)

	Governmental Type Activities		Business Type Activities	
	2005	2004	2005	2004
Land	\$ 6,655,678	\$ 6,610,711	\$ -	\$ -
Construction In Progress	-	1,001,441		
Buildings and Improvements	81,728,920	78,747,167	-	-
Furniture and Equipment	7,811,651	5,904,260	46,046	48,686
School Buses and Vehicles	368,240	460,613	-	-
Total Capital Assets	\$ 96,564,489	\$ 92,724,192	\$ 46,046	\$ 48,686

Debt

As of June 30, 2005, the School District has \$14,621,456 in bonds and notes outstanding, \$513,865 due within on year. Other long-term debt is comprised of capital leases and compensated absences. Table 4 summarizes long-term debt outstanding.

Marion City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005

Unaudited

Table 4
 Outstanding Debt, at Fiscal Year End

	Governmental Activities 2005	Governmental Activities 2004
General Obligation Bonds:		
4.4% to 5.36% 2000 School Improvement	\$ 14,255,000	\$ 14,635,000
Notes Payable:		
Bus Note, 2.75%	19,050	63,889
Athletic Note, 4.2%	347,406	372,221
Compensated Absences	3,244,678	3,443,965
Capital Lease Payable	182,676	98,529
Total	\$ 18,048,810	\$ 18,613,604

Restrictions and Other Limitations

The School District faces many challenges in the future. As the preceding information shows, the School District relies heavily upon grants and entitlements and property taxes. Another challenge facing the School District is the future of state funding. The State of Ohio was found by the Ohio Supreme Court in March, 1997 to be operating an unconstitutional educational system, one that was neither "adequate" nor "equitable." Since 1997, the State has directed its tax revenue growth toward schools districts with little property tax wealth. On December 11, 2002, the Ohio Supreme Court issued an opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding plan is unconstitutional. Since then, the Ohio Supreme Court has relinquished jurisdiction over the case and directed the Ohio General Assembly to enact a school-funding plan that is thorough and efficient. The School District is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

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

Contacting the 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 show the School District's accountability for the money it receives. If you have any questions about this report or need financial information contact, Robert Wood, Treasurer of Marion City School District, 910 East Church Street, Marion, Ohio 43302.

Marion City School District

Statement of Net Assets
June 30, 2005

	Governmental Activities	Business-Type Activities	Total	Component Unit
<u>Assets:</u>				
Equity in Pooled Cash and Cash Equivalents	\$ 4,319,045	\$ (84,491)	\$ 4,234,554	\$ 99,555
Cash and Cash Equivalents:				
With Fiscal Agents	366	-	366	-
Receivables:				
Taxes	12,593,116	-	12,593,116	-
Accounts	165,674	832	166,506	-
Intergovernmental	844,416	-	844,416	-
Prepaid Items	87,453	-	87,453	-
Material and Supplies Inventory	72,670	68,457	141,127	1,359
Restricted Assets:				
Equity in Pooled Cash and Cash Equiv	1,032,989	-	1,032,989	-
Non-Depreciable Capital Assets	6,655,678	-	6,655,678	-
Depreciable Capital Assets	89,908,811	46,046	89,954,857	21,083
Total Assets	<u>\$ 115,680,218</u>	<u>\$ 30,844</u>	<u>\$ 115,711,062</u>	<u>\$ 121,997</u>
<u>Liabilities:</u>				
Accounts Payable	\$ 383,511	\$ 19,982	\$ 403,493	\$ -
Accrued Wages and Benefits	4,749,974	150,787	4,900,761	2,642
Due to Other Governments	1,074,702	70,459	1,145,161	45,544
Deferred Revenue	7,239,133	-	7,239,133	-
Matured Interest Payable	366	-	366	-
Accrued Interest Payable	77,033	-	77,033	-
Long-Term Liabilities:				
Due within one year	1,116,497	526	1,117,023	-
Due in more than one year	16,932,313	69,756	17,002,069	-
Total Liabilities	<u>31,573,529</u>	<u>311,510</u>	<u>31,885,039</u>	<u>48,186</u>
<u>Net Assets:</u>				
Invested in Capital Assets, Net of Related Debt	81,760,357	46,046	81,806,403	21,083
Restricted for:				
Debt Service	859,759	-	859,759	-
Capital Project	455,533	-	455,533	-
Other Purposes	2,043,651	-	2,043,651	-
Unrestricted (Deficit)	<u>(1,012,611)</u>	<u>(326,712)</u>	<u>(1,339,323)</u>	<u>52,728</u>
Total Net Assets	<u>\$ 84,106,689</u>	<u>\$ (280,666)</u>	<u>\$ 83,826,023</u>	<u>\$ 73,811</u>

See accompanying notes to the basis financial statements.

Marion City School District

Statement of Activities
For the Fiscal Year Ended June 30, 2005

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			Component Unit Marion CSD Digital Academy
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total	
					Governmental Activities	Business-Type Activities		
Primary government:								
Governmental Activities:								
Instruction:								
Regular	21,860,738	1,625,913	1,815,031	-	(18,419,794)		(18,419,794)	
Special	5,664,401	321,161	1,732,312	-	(3,610,928)		(3,610,928)	
Vocational	455,889	34,279	-	-	(421,610)		(421,610)	
Adult/Continuing	88,763	2,150	62,774	-	(23,839)		(23,839)	
Other	198,404	16,306	4,685	-	(177,413)		(177,413)	
Support Services:								
Pupils	2,094,960	-	115,640	-	(1,979,320)		(1,979,320)	
Instructional Staff	2,398,664	-	1,343,309	-	(1,055,355)		(1,055,355)	
Board of Education	111,738	-	-	-	(111,738)		(111,738)	
Administration	3,448,266	13,110	219,794	-	(3,215,362)		(3,215,362)	
Fiscal	536,378	-	2,166	-	(534,212)		(534,212)	
Business	365,753	-	-	-	(365,753)		(365,753)	
Operation and Maintenance	4,151,896	-	17,688	-	(4,134,208)		(4,134,208)	
Pupil Transportation	667,897	1,794	34,398	-	(631,705)		(631,705)	
Operation of Non-Instructional Services	926,751	-	-	-	(926,751)		(926,751)	
Extracurricular Activities	707,113	139,315	138,912	-	(428,886)		(428,886)	
Facilities Acquisition and Construction Services	1,895,590	-	-	3,767,890	1,872,300		1,872,300	
Interest and Fiscal Charges	820,709	-	-	-	(820,709)		(820,709)	
Total governmental activities	<u>46,393,910</u>	<u>2,154,028</u>	<u>5,486,709</u>	<u>3,767,890</u>	<u>(34,985,283)</u>		<u>(34,985,283)</u>	
Business-Type activities:								
Food Service	1,911,354	712,485	1,095,068	-	-	(103,801)	(103,801)	
Uniform School Supplies	14,507	21,084	-	-	-	6,577	6,577	
Adult Education	47,645	-	58,254	-	-	10,609	10,609	
Total Business-Type activities	<u>1,973,506</u>	<u>733,569</u>	<u>1,153,322</u>			<u>(86,615)</u>	<u>(86,615)</u>	
Total primary government	<u>48,367,416</u>	<u>2,887,597</u>	<u>6,640,031</u>	<u>3,767,890</u>	<u>(34,985,283)</u>	<u>(86,615)</u>	<u>(35,071,898)</u>	
Component Unit:								
Marion City Schools Digital Academy	<u>742,909</u>	<u>-</u>	<u>76,101</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(666,808)</u>	
Taxes:								
Property taxes, levied for general purposes					10,588,671	-	10,588,671	
Property taxes, levied for special revenue purposes					142,626	-	142,626	
Property taxes, levied for debt service					1,092,953	-	1,092,953	
Grants and Entitlements not Restricted to Specific Purposes					26,515,615	-	26,515,615	
Payment in Lieu of Taxes					1,598,614	-	1,598,614	
Unrestricted Investment Earnings					156,843	-	156,843	
Gain on sale of Capital Assets					55,558	-	55,558	
Transfers (Net)					(220,861)	220,861	-	
Miscellaneous					253,182	9,352	262,534	
Total general revenues					<u>40,183,201</u>	<u>230,213</u>	<u>40,413,414</u>	
Change in net assets					<u>5,197,918</u>	<u>143,598</u>	<u>5,341,516</u>	
Net assets - July 1, 2004 as Restated					<u>78,908,771</u>	<u>(424,264)</u>	<u>78,484,507</u>	
Net assets - June 30, 2005					<u>\$ 84,106,689</u>	<u>\$ (280,666)</u>	<u>\$ 83,826,023</u>	

See accompanying notes to the basic financial statements.

Marion City School District

Balance Sheet
 Governmental Funds
 June 30, 2005

Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 June 30, 2005

	General	Classroom Facilities	Other Governmental Funds	Total Governmental Funds	Total Governmental Fund Balances	
					\$ 3,868,665	
Assets						
Equity in Pooled Cash and Cash Equivalents	\$ 2,032,224	\$ 353,172	\$ 1,933,649	\$ 4,319,045		
Cash and Cash Equivalents:						
With Fiscal Agents	-	-	366	366		96,564,489
Receivables:						
Taxes	11,086,512	-	1,506,604	12,593,116		
Accounts	164,611	-	1,063	165,674		
Intergovernmental	-	-	844,416	844,416		
Prepaid Items	87,453	-	-	87,453		
Material and Supplies Inventory	72,670	-	-	72,670		
Restricted Assets:						
Equity in Pooled Cash and Cash Equivalents	1,032,989	-	-	1,032,989		
Total Assets	\$ 14,476,459	\$ 353,172	\$ 4,286,098	\$ 19,115,729		
Liabilities						
Accounts Payable	\$ 307,884	\$ -	\$ 75,627	\$ 383,511		
Accrued Wages Payable	4,183,671	-	566,303	4,749,974		
Compensated Absences Payable	198,989	-	82,492	281,481		
Due to Other Governments	944,783	-	129,919	1,074,702		
Deferred Revenue	7,564,734	-	1,192,296	8,757,030		
Matured Interest Payable	-	-	366	366		
Total Liabilities	13,200,061	-	2,047,003	15,247,064		
Fund Balances:						
Reserved for Encumbrances	600,899	113,203	223,890	937,992		
Reserved for Inventory	72,670	-	-	72,670		
Reserved for Taxes Unappropriated	3,521,778	-	430,760	3,952,538		
Reserved for Textbooks	1,032,989	-	-	1,032,989		
Unreserved, Reported in:						
General Fund (Deficit)	(3,951,938)	-	-	(3,951,938)		
Special Revenue Funds	-	-	1,003,140	1,003,140		
Debt Service Fund	-	-	477,540	477,540		
Capital Projects Funds	-	239,969	102,361	342,330		
Permanent Funds	-	-	1,404	1,404		
Total Fund Balances	1,276,398	353,172	2,239,095	3,868,665		
Total Liabilities and Fund Balances	\$ 14,476,459	\$ 353,172	\$ 4,286,098	\$ 19,115,729		

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. 96,564,489

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

Property Taxes \$ 1,401,445

Intergovernmental 116,452 1,517,897

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

Compensated Absences Payable \$ (2,963,197)

Capital Lease Payable (182,676)

G. O. Bonds and Notes Payable (14,621,456)

Accrued Interest Payable (77,033) (17,844,362)

Net Assets of Governmental Activities \$ 84,106,689

See accompanying notes to the basis financial statements.

Marion City School District

Statement of Revenues, Expenditures
and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2005

Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities

Net Change in Fund Balances-Total Governmental Funds \$ 812,335

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

	General	Classroom Facilities	Other Governmental Funds	Total Governmental Funds	
Revenues:					
Taxes	\$ 10,398,304	\$ -	\$ 1,216,773	\$ 11,615,077	
Intergovernmental	26,377,353	3,767,890	5,871,289	36,016,532	
Investment Income	142,209	14,617	17	156,843	
Tuition	1,999,809	-	-	1,999,809	
Extracurricular Activities	47,730	-	104,695	152,425	
Classroom Materials and Fees	86,245	-	339	86,584	
Transportation Fees	1,794	-	-	1,794	
Payment In Lieu of Taxes	1,598,614	-	-	1,598,614	
Miscellaneous	88,116	300	78,182	166,598	
Total Revenue	40,740,174	3,782,807	7,271,295	51,794,276	
Expenditures:					
Current:					
Instruction:					
Regular	20,567,167	-	1,654,402	22,221,569	
Special	4,159,645	-	1,544,863	5,704,508	
Vocational	454,226	-	-	454,226	
Adult/Continuing	26,665	-	62,098	88,763	
Other	193,770	-	4,635	198,405	
Support Services:					
Pupils	1,996,205	-	112,884	2,109,089	
Instructional Staff	1,071,913	-	1,318,929	2,390,842	
Board of Education	96,329	-	-	96,329	
Administration	3,134,072	-	297,334	3,431,406	
Fiscal	510,414	-	24,480	534,894	
Business	365,386	-	-	365,386	
Operation and Maintenance	4,180,270	-	243,054	4,423,324	
Pupil Transportation	654,774	-	34,081	688,855	
Operation of Non-Instructional	761,855	-	186,681	948,536	
Extracurricular Activities	572,229	-	149,910	722,139	
Facilities Acquisition and Construction Services	29,857	5,174,345	44,967	5,249,169	
Debt Service:					
Principal Retirement	125,055	-	404,815	529,870	
Interest and Fiscal Charges	10,347	-	813,344	823,691	
Total Expenditures	38,910,179	5,174,345	6,896,477	50,981,001	
Excess of Revenues Over (Under) Expenditures	1,829,995	(1,391,538)	374,818	812,275	
Other Financing Sources (Uses):					
Inception of Capital Lease	164,363	-	-	164,363	
Proceeds from Sale of Capital Assets	55,558	-	-	55,558	
Operating Transfers In	-	532,186	50,000	582,186	
Operating Transfers Out	(803,047)	-	-	(803,047)	
Total Other Sources (Uses)	(583,126)	532,186	50,000	(940)	
Net Change in Fund Balance	1,246,869	(859,352)	424,818	812,335	
Fund Balances (Deficit) at Beginning of Year as restated	27,235	1,212,524	1,814,277	3,054,036	
Increase (Decrease) in Reserve for Inventory	2,294	-	-	2,294	
Fund Balances (Deficits) End of Year	\$ 1,276,398	\$ 353,172	\$ 2,239,095	\$ 3,868,665	

Governmental funds report capital outlays as expenditures.

However, in the statement of activity the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays was over depreciation in the current period.

Capital Outlays	\$ 7,604,608	
Depreciation	(3,764,311)	3,840,297

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

Property Taxes	\$ 209,173	
Grants	(246,318)	(37,145)

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

Bonds and Notes Payments	\$ 449,654	
Inception of Capital Lease	(164,363)	
Capital Leases Payments	80,216	365,507

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

		2,982
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Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.

Change in Inventory	\$ 2,294	
Compensated Absences	211,648	213,942

Change in Net Assets of Governmental Activities	\$ 5,197,918	
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See accompanying notes to the basic financial statements.

Marion City School District
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget (Non-GAAP) and Actual
General Fund

For the Fiscal Year Ended June 30, 2005

	Budgeted Amounts			Variance
	Original	Final	Actual	Final Budget Favorable (Unfavorable)
Revenues:				
Taxes	\$ 10,177,775	\$ 10,177,775	\$ 10,491,707	\$ 313,932
Intergovernmental	28,295,964	28,370,964	27,912,141	(458,823)
Investment Income	200,000	200,000	142,209	(57,791)
Tuition	43,000	43,000	1,934,285	1,891,285
Transportation Fees	12,000	12,000	15,381	3,381
Extracurricular Activities	25,000	25,000	47,730	22,730
Classroom Materials and Fees	60,000	60,000	86,245	26,245
Miscellaneous Revenue	346,000	346,000	199,360	(146,640)
Total Revenue	39,159,739	39,234,739	40,829,058	1,594,319
Expenditures:				
Current:				
Instruction:				
Regular	21,880,557	21,880,557	20,717,368	1,163,189
Special	4,159,915	4,159,915	4,092,237	67,678
Vocational	444,128	444,128	436,777	7,351
Adult/Continuing	20,959	20,959	27,393	(6,434)
Other	212,984	212,984	207,775	5,209
Support Services:				
Pupils	1,861,483	1,861,483	1,898,251	(36,768)
Instructional Staff	1,089,540	1,089,540	1,118,145	(28,605)
Board of Education	82,217	82,217	106,458	(24,241)
Administration	3,107,045	3,107,045	3,182,771	(75,726)
Fiscal	592,071	592,071	519,320	72,751
Business	371,082	371,082	382,320	(11,238)
Operation and Maintenance	4,150,354	4,150,354	4,511,084	(360,730)
Pupil Transportation	529,114	529,114	674,569	(145,455)
Operation of Non-Instructional	596,904	596,904	762,840	(165,936)
Extracurricular Activities	646,155	646,155	542,185	103,970
Facilities Acquisition and Construction Services	172,810	172,810	101,265	71,545
Debt Service:				
Principal Retirement	44,839	44,839	44,839	-
Interest and Fiscal Charges	1,195	1,195	1,195	-
Total Expenditures	39,963,352	39,963,352	39,326,792	636,560
Excess of Revenues Over (Under) Expenditures	(803,613)	(728,613)	1,502,266	2,230,879
Other Financing Sources (Uses):				
Proceeds from Sale of Fixed Assets	55,000	55,000	55,558	558
Refund of Prior Year Expenditures	25,000	25,000	53,355	28,355
Operating Transfers Out	(803,048)	(803,048)	(803,048)	-
Total Other Sources (Uses)	(723,048)	(723,048)	(694,135)	28,913
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Uses	(1,526,661)	(1,451,661)	808,131	2,259,792
Fund Balances (Deficit) at Beginning of Year				
	772,841	772,841	772,841	-
Prior Year Encumbrances Appropriated				
	689,340	689,340	689,340	-
Fund Balances (Deficit) at End of Year	\$ (64,480)	\$ 10,520	\$ 2,270,312	\$ 2,259,792

See accompanying notes to the basic financial statements.

Marion City School District

Statement of Net Assets
Proprietary Funds
June 30, 2005

	<u>Business-Type Activities</u>
<u>Assets</u>	
Equity in Pooled Cash and Cash Equivalents	\$ (84,491)
Accounts Receivable	832
Material and Supplies Inventory	<u>68,457</u>
Total Current Assets	(15,202)
Capital Assets, (Net)	<u>46,046</u>
Total Assets	<u><u>\$ 30,844</u></u>
<u>Liabilities</u>	
Accounts Payable	\$ 19,982
Accrued Wages	150,787
Due to Other Governments	70,459
Compensated Absences Payable	<u>526</u>
Total Current Liabilities	<u>241,754</u>
Long Term Liabilities:	
Compensated Absences Payable	<u>69,756</u>
Total Liabilities	<u><u>311,510</u></u>
<u>Net Assets</u>	
Invested in capital assets, net of related debt	46,046
Unrestricted	<u>(326,712)</u>
Total Net Assets	<u><u>\$ (280,666)</u></u>

See accompanying notes to the basic financial statements.

Marion City School District

Statement of Revenues, Expenses
and Changes in Fund Net Assets
Proprietary Funds

For the Fiscal Year Ended June 30, 2005

	<u>Business-Type Activities</u>
<u>Operating Revenues:</u>	
Food Services	\$ 712,485
Classroom Fees	21,084
Total Operating Revenues	<u>733,569</u>
<u>Operating Expenses:</u>	
Salaries	723,049
Fringe Benefits	383,256
Purchased Services	137,379
Materials and Supplies	718,192
Depreciation	11,630
Total Operating Expenses	<u>1,973,506</u>
Operating Income (Loss)	<u>(1,239,937)</u>
<u>Non-Operating Revenues (Expenses):</u>	
Federal Donated Commodities	93,707
Operating Grants	1,059,615
Other Non-Operating Income(Expenses)	9,352
Total Non-Operating Revenues (Expenses)	<u>1,162,674</u>
Income (Loss) Before Operating Transfers	(77,263)
Transfers In	220,861
Change in Net Assets	143,598
Total Net Assets at Beginning of Year	<u>(424,264)</u>
Total Net Assets at End of Year	<u>\$ (280,666)</u>

See accompanying notes to the basic financial statements.

Marion City School District
Statement of Cash Flows
Proprietary Fund
For the Fiscal Year Ended June 30, 2005

	<u>Business-Type Activities</u>
Increase (Decrease) in Cash and Cash Equivalents	
<u>Cash Flows from Operating Activities:</u>	
Cash Received from Customers	\$ 735,896
Cash Payments to Suppliers for Goods and Services	(719,136)
Cash Payments to Employees for Services	(670,148)
Cash Payments for Employee Benefits	<u>(441,108)</u>
Net Cash Provided by (Used in) Operating Activities	<u>(1,094,496)</u>
<u>Cash Flows from Noncapital Financing Activities:</u>	
Operating Grants Received	1,062,453
Transfers In	220,861
Other Receipts	<u>9,352</u>
Net Cash Provided by Noncapital Financing Activities	<u>1,292,666</u>
<u>Cash Flows from Capital & Related Financing Activities:</u>	
Payments for Capital Acquisitions	<u>(8,990)</u>
Net Cash Provided by Capital and Related Financing Activities	<u>(8,990)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	189,180
Cash and Cash Equivalents Beginning of Year	<u>(273,671)</u>
Cash and Cash Equivalents End of Year	<u><u>\$ (84,491)</u></u>
 <u>Reconciliation of Operating Loss to Net Cash Provided by (Used in) Operating Activities</u>	
Operating Income (Loss)	\$ (1,239,937)
Adjustments:	
Net Cash from Operating Activities:	
Depreciation	11,630
Donated Commodities Revenue	93,707
(Increase) Decrease in Assets:	
Accounts Receivable	5,165
Material and Supply Inventory	22,746
Intergovernmental Receivable	(2,838)
Increase (Decrease) in Liabilities:	
Accounts Payable	19,982
Accrued Wages and Benefits Payable	(2,672)
Due to Other Governments	8,320
Compensated Absences Payable	<u>(10,599)</u>
Total Adjustments	<u>145,441</u>
Net Cash Provided by Operating Activities	<u><u>\$ (1,094,496)</u></u>

See accompanying notes to the basic financial statements.

Marion City School District

Statement of Fiduciary Net Assets
Fiduciary Funds

June 30, 2005

	<u>Private Purpose Trust</u>	
	<u>Scholarship</u>	<u>Agency</u>
<u>Assets:</u>		
Equity in Pooled Cash and Cash Equivalents	\$ 108,344	\$ 79,828
Accounts Receivable	-	90
Total Assets	<u>\$ 108,344</u>	<u>\$ 79,918</u>
<u>Liabilities:</u>		
Accounts Payable	\$ -	\$ 930
Due to Students	-	78,988
Total Liabilities	<u>\$ -</u>	<u>\$ 79,918</u>
<u>Net Assets</u>		
Restricted for:		
Scholarships	<u>\$ 92,647</u>	
Total Restricted	92,647	
Unrestricted:		
Held in Trust for Scholarships	15,697	
Total Net Assets	<u>\$ 108,344</u>	

See accompanying notes to the basic financial statements.

Marion City School District

Statement of Changes in Fiduciary Net Assets
Fiduciary Funds

For the Fiscal Year Ended June 30, 2005

	<u>Private Purpose Trust</u>
	<u>Scholarship</u>
<u>Additions:</u>	
Interest Income	\$ 703
Miscellaneous Income	<u>2,414</u>
Total Additions	<u>3,117</u>
<u>Deductions</u>	
Other	<u>3,872</u>
Total Deductions	<u>3,872</u>
Change in Net Assets	(755)
Net Assets Beginning of Year	<u>109,099</u>
Net Assets End of Year	<u><u>\$ 108,344</u></u>

See accompanying notes to the basic financial statements.

**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

The Marion City School District (School District) is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The School District operates under an elected Board of Education (5 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 is located in central Marion County in north central Ohio, approximately 50 miles north of Columbus, 90 miles southeast of Toledo, and 115 miles southwest of Cleveland. The School District serves an area of approximately 9.7 square miles including all of the City of Marion. The School District is the 58th largest in the State of Ohio (among 612 school districts) in terms of enrollment. It currently operates five elementary schools, three middle schools, and one comprehensive high school. It is staffed by 178 noncertificated employees and 412 certificated employees and thirty-five administrative personnel who provide services to 5,265 students in grades K through 12, more than 500 adult education students, and various community groups.

Reporting Entity

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

Component units are legally separate organizations for which the 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; (2) the School District is legally entitled to or can otherwise access the organization's resources; (3) 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 (4) 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 their budget, the issuance of their debt or the levying of their taxes.

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

Marion City Schools Digital Academy – Marion City Schools Digital Academy (Academy) is a legally separate not-for-profit served by an appointed six-member Board of Directors. The Academy, under a contractual agreement with the School District, provides comprehensive educational programs of high quality, tied to state and national standards, which can be delivered to students in the K-12 population entirely through distance learning technologies. It is operated in cooperation with the School District to provide an innovative and cost-effective solution to the special problems of disabled students, students removed from school for disciplinary reasons, students needing advanced or specialized courses, and others, including home-schooled students. The School District elects three persons employed and serving in administrator positions within the School District, one member who is neither an officer nor employee of the School District who is a public educator or other public official representing a governmental entity that desires to further the establishment and operation of the Academy, and one member who is neither an officer nor employee of the School District who is a representative initially appointed by the Tri-Rivers Educational Computer Association (TRECA). Therefore, the Academy is reflected as a component unit of the School District. The Academy operates on a fiscal year ending June 30. Separately issued financial statements can be obtained from Marion City Schools Digital Academy, 910 East Church Street, Marion, OH 43302. Note disclosures for the Academy are reflected in Note 15 of the notes to the basic financial statements.

**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005**

Related Organization:

Marion Public Library - The School District is not involved in the budgeting process or operational management of the Library, nor does it subsidize or finance its operations. The selection of directors and approval of the annual budget by the School District is conducted only to comply with statutory requirements. Financial information can be obtained from Lori Cook, Financial Director, 445 East Church Street, Marion, OH 43302 or by calling (740) 387-0498.

Jointly Governed Organization:

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005**

FUND FINANCIAL STATEMENTS

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government wide financial statements. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a single column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

B. Fund Accounting

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

GOVERNMENTAL FUNDS

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

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

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

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

PROPRIETARY FUNDS

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

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

FIDUCIARY FUNDS

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

**MARION CITY SCHOOL DISTRICT
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**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005**

C. Measurement Focus

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

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

D. Basis of Accounting

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

Revenues - Exchange and Non-exchange Transactions

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

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

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

Deferred Revenue

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Delinquent property taxes and property taxes for which there is an enforceable legal claim as of June 30, 2005, but which were levied to finance fiscal year 2006 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

**MARION CITY SCHOOL DISTRICT
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**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005**

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

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the fiscal year is reported in the operating statement as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as deferred revenue.

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

E. Budgetary Process

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

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

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

F. Cash and Investments

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

During fiscal year 2005, investments were limited to a Money Market Mutual Fund, repurchase agreements, and STAR Ohio. Except for investment contracts and money market investments that had a remaining maturity of one year or less at the time of purchase, investments are reported at fair value that is based on quoted market prices. Investment contracts and money market investments that had a maturity of one year or less at the time of purchase are reported at cost or amortized cost.

The School District has invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during fiscal year 2005. STAR Ohio is an investment pool managed by the State Treasurer's office that allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price that is the price the investment could be sold for on June 30, 2005.

**MARION CITY SCHOOL DISTRICT
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**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005**

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2005 amounted to \$142,209, which includes \$78,563 assigned from other funds.

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

G. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents that are restricted by state statute. See note 14 for details.

H. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2005, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is reported in the year which services are consumed.

I. Inventories

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

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

J. Bond Discounts, Premiums, and Issuance Costs

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

K. Capital Assets

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

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

**MARION CITY SCHOOL DISTRICT
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**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005**

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

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

L. Interfund Balances

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

M. Compensated Absences

Compensated absences of the School District consist of vacation leave and severance liability to the extent that payments to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the School District and the employee.

In accordance with the provisions of Statement No. 16 of the Governmental Accounting Standards Board, Accounting for Compensated Absences, a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at the balance sheet date by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees age fifty (50) or greater with at least ten (10) years of service; or twenty (20) years of service at any age were considered expected to become eligible to retire in accordance with GASB 16.

The total liability for vacation and severance payments has been calculated using pay rates in effect at the balance sheet date, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

N. Accrued Liabilities and Long-Term Obligations

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

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

**MARION CITY SCHOOL DISTRICT
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**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005**

O. Net Assets

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

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

P. Fund Balance Reserves

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

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute. The reserve for textbooks represents money required to be set-aside by statute to guarantee a certain amount be spent on new school textbooks each year.

Q. Operating Revenues and Expenses

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

R. Interfund Transactions

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

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

S. Estimates

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

**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005**

T. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal 2005.

NOTE 3 – ACCOUNTABILITY

At June 30, 2005, the Ohio Reads, Title IV and Food Service Funds had deficit cash balances. This was created by the General Fund not advancing funds at fiscal year-end. Management is presently looking for ways to eliminate these negative cash balances and fund deficits.

Ohio Reads 459	\$ (1,382)
Title IV 584	\$ (6,369)
Food Service 006	\$ (175,640)

At June 30, 2005, the Food Service Fund had a deficit fund balance of \$369,053 again for not advancing funds at fiscal year-end

In addition to the negative cash balances noted above, many of the School District's funds at varying times throughout the year had appropriations that exceeded estimated resources and expenditures that exceeded appropriations, contrary to Ohio Revised Sections 5705.39 and 5705.41(B), respectively. Management is presently looking for ways to eliminate these instances of budgetary noncompliance.

NOTE 4 - BUDGETARY BASIS OF ACCOUNTING

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

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

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

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MARION COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005**

Net Change in Fund Balance	
	General
Budget Basis	\$ 808,131
Adjustments:	
Revenue Accruals:	
Accrued FY2004, Received in Cash FY2005	(3,735,340)
Accrued FY2005, Not Yet Received in Cash	3,646,457
Expenditure Accruals:	
Accrued FY2004, Paid in Cash FY2005	4,941,765
Accrued FY2005, Not Yet Paid in Cash	(5,318,654)
Encumbrances	793,502
Other Financial Sources/Uses:	
Refunds	(53,355)
Inception of Lease	164,363
GAAP Basis	\$ 1,246,869

NOTE 5 - DEPOSITS AND INVESTMENTS

Deposits

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

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

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

Interim Deposits: those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories.

Protection of the School District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public money deposited with the institution.

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

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

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**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005**

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchased agreement must exceed the principal value of the agreements by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions mentioned in § 135.03 of the Revised Code;
6. The State Treasurer's Investment pool;
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed 25% of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt instruments rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

At fiscal year end, the School District had \$1,660 in undeposited cash on hand which is included on the balance sheet of the School District as part of "Equity in Pooled Cash and Cash Equivalents".

Deposits: At fiscal year end, the carrying amount of the School's deposits was \$3,105,600 and the bank balance was \$3,450,248. Of the bank balance:

1. \$395,613 was covered by federal depository insurance.
2. \$3,054,635 was uninsured and uncollateralized as defined by GASB. Although it was secured by collateral held by third party trustees, pursuant to section 135.181 Ohio Revised Code, in collateralized pools securing all public funds on deposit, these securities are not held in the name of the School District. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the School District to a successful claim by the FDIC.

Custodial credit risk is the risk that in the event of bank failure, the School will not be able to recover the deposits. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral pools at the Federal Reserve Banks or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all the public deposits it holds or as specific collateral held at the Federal Reserve bank in the name of the School District.

Collateral is required for demand deposits and certificates of deposit in excess of all deposits covered by federal depository insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies, obligations of the State of Ohio and its municipalities, and obligations of the other

**MARION CITY SCHOOL DISTRICT
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**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005**

states. Obligations pledged to secure deposits must be delivered to a bank other than the institution in which the deposit is made. Written custodial agreements are required.

Investments: The School District's investments are categorized below to give an indication of the level of risk assumed by the School District at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by the School District or its agent in the School District's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the School District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the School District's name. The School District's investment in STAR Ohio and money market mutual funds is unclassified because it is not evidenced by securities that exist in physical or book.

	<u>Fair Value</u>
Money Market Mutual Funds	\$ 2,256,718
STAR Ohio	<u>91,740</u>
Total Investments	<u><u>\$ 2,348,458</u></u>

Credit Risk. Standard and Poor's has assigned STAR Ohio a AAA rating and the School District's money market mutual funds are unrated. The School District does not have a formal policy limiting credit risk.

Concentration of Credit Risk. Credit risk also can arise in the wake of a failure to adequately diversity investments. The School District places no limit on the amount that may be invested in any one issuer.

NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility, and tangible personal (used in business) property located in the School District. Real and public utility property tax revenues received in calendar year 2005 represent the collection of calendar year 2004 taxes. Real property taxes for 2005 were levied after April 1, 2004, on the assessed values as of January 1, 2004, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility real and tangible personal property taxes for 2005 were levied after April 1, 2004, on the assessed values as of December 31, 2004, the lien date. Public utility real property is assessed at 35 percent of true value; tangible personal property is currently assessed at varying percentages of true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

Tangible personal property tax revenues received in calendar year 2005 (other than public utility property) represent the collection of calendar year 2005 taxes. Tangible personal property taxes for 2005 were levied after April 1, 2004, on the value as of December 31, 2004. Tangible personal property is currently assessed at 25 percent of true value for capital assets and 24 percent of true value for inventory. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

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

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**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005**

by June 30, 2005, are available to finance fiscal year 2005 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents delinquent taxes outstanding and real property, public utility property, and tangible personal property taxes, which were measurable as of June 30, 2005 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, amounts to be received during the available period are not subject to reasonable estimation at June 30, nor were they levied to finance fiscal year 2005 operations. For the governmental fund financial statements, the receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance was recognized as revenue. On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue while on a modified accrual basis the revenue is deferred.

The amount available as an advance at June 30, 2005, was \$3,521,778 in the General Fund, \$382,219 in the Debt Service Fund and \$48,541 in the Classroom Facilities Maintenance Special Revenue 034 Fund.

The assessed values upon which the fiscal year 2005 taxes were collected are:

	2005 First-Half Collections		2004 Second-Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Public Utility	\$ 247,105,360	66%	\$ 234,627,180	64%
Commercial & Industrial Real	65,493,790	17%	68,584,050	18%
Tangible Public Utilities	20,742,950	5%	21,074,060	6%
Tangible Personal Property	44,832,693	12%	44,904,580	12%
Total Assessed Value	\$ 378,174,793	100%	\$ 369,189,870	100%
Tax rate per \$1,000 of assessed valuation	\$48.93		\$48.93	

NOTE 7 - RECEIVABLES

Receivables at June 30, 2005, consisted of taxes, accounts (billings for user charged services), and intergovernmental receivables arising from grants, entitlement and shared revenues. All receivables are considered collectable in full. A summary of the principal items of receivables follows:

**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005**

Receivables	Amount
<u>Governmental Type Activities:</u>	
Taxes:	
General Fund	\$ 11,086,512
Bond Retirement Fund	1,333,764
Classroom Facilities	172,840
Total Taxes Receivable	12,593,116
Accounts:	
General Fund	164,611
Other Governmental Funds	1,063
Total Accounts Receivable	165,674
Intergovernmental:	
General Fund	-
Other Governmental Funds	844,416
Total Intergovernmental Receivables	844,416
Total Governmental Type Activities	13,603,206
<u>Business-Type Activities:</u>	
Accounts	832
Total Business-Type Activities	832
<u>Fiduciary:</u>	
Accounts	90
Grand Total	\$ 13,604,128

**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005**

NOTE 8 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

	Balance 6/30/2004	Additions	Deductions	Balance 6/30/2005
<u>Governmental Activities:</u>				
<u>Non-Depreciable Capital Assets:</u>				
Land	\$ 6,610,711	\$ 44,967	\$ -	\$ 6,655,678
Construction In Progress	1,001,441	(1,001,441)	-	-
Total NonDepreciable Assets:	7,612,152	(956,474)	-	6,655,678
<u>Depreciable Capital Assets:</u>				
Buildings and Improvements	94,444,840	6,517,166	-	100,962,006
Furniture and Equipment	11,582,684	2,018,567	-	13,601,251
School Buses and Vehicles	1,151,880	25,349	-	1,177,229
Total Historical Cost	107,179,404	8,561,082	-	115,740,486
Less Accumulated Depreciation:				
Buildings and Improvements	(15,722,510)	(3,510,576)	-	(19,233,086)
Furniture and Equipment	(5,653,587)	(136,013)	-	(5,789,600)
School Buses and Equipment	(691,267)	(117,722)	-	(808,989)
Total Accumulated Depreciation	(22,067,364)	(3,764,311)	-	(25,831,675)
Total Depreciable Assets, Net	85,112,040	4,796,771	-	89,908,811
Total Capital Assets, Net	\$ 92,724,192	\$ 3,840,297	\$ -	\$ 96,564,489
<u>Business-Type Activities</u>				
Furniture and Equipment	287,261	8,990	-	296,251
Less Accumulated Depreciation	(238,575)	(11,630)	-	(250,205)
Business-Type Activities Capital Assets, Net	\$ 48,686	\$ (2,640)	\$ -	\$ 46,046

*Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 40,945
Special	1,833
Support Service:	
Pupil	246
Instructional Staff	1,662
Board of Education	181
Administration	983
Operation and Maintenance of Plant	16,503
Pupil Transportation	1,491
Operation of Non-Instructional Services	2,285
Extracurricular Activities	1,943
Facilities Acquisition and Construction	3,696,239
Total Depreciation Expense	\$ 3,764,311

**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005**

NOTE 9 - RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, injuries to employees and natural disasters. During fiscal year 2005, the School District purchased insurance from Nationwide Insurance Company (through the Ohio School Plan).

The School District is covered under general liability insurance for \$2 million per occurrence and has a \$5 million annual aggregate limit.

Fleet and property/casualty insurance are purchased through commercial carriers and are traditionally funded, as are all benefit plans offered to employees.

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

The School District is a member of the Ohio Schools Boards Association (OSBA) Worker's Compensation Group Rating Program established in April 1991. The program was created by the Ohio Schools Boards Association as a result of the Workers' Compensation group rating plan as defined in 4123.29, Ohio Revised Code. The group rating plan will allow school districts to group together to potentially achieve a lower premium rate than they may otherwise be able to acquire as individual employers. The following are insurance amounts and limits held by the school district:

	<u>Amount</u>
General Aggregate Limit	\$ 3,000,000
Employee Benefit Liability:	
Per Occurrence	\$ 1,000,000
Aggregate	\$ 3,000,000
Employer Liability:	
Bodily Injury by Accident and Disease	\$ 1,000,000
Educational Legal Liability:	
Errors and Omissions (\$2,500 deductible)	
Per Occurrence	\$ 1,000,000
Aggregate	\$ 2,000,000

NOTE 10 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School District contributes to the School Employees Retirement System of Ohio (SERS), a cost sharing multiple employer defined benefit pension plan administered by the School Employees Retirement Board. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476.

For the fiscal year ended June 30, 2005, plan members were required to contribute 10 percent of their annual covered salary and the School District was required to contribute an actuarially determined rate. The employer rate for fiscal year 2005 was 14 percent of annual covered payroll; 10.57 percent was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS

**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005**

Retirement Board. The School District's required contribution for pension obligations to SERS for the fiscal years ending June 30, 2005, 2004 and 2003 were \$586,647, \$419,401, and \$329,170, respectively; 52.0 percent has been contributed for fiscal year 2005, and 100 percent for fiscal years 2004 and 2003. The unpaid contribution for fiscal year 2005 is \$281,023.

B. State Teachers Retirement Systems

The School District contributes to 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 (the State) or any 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% of earned compensation. The Combined Plan offers features of the DC Plan and the DB. In the Combined Plan, the member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment at a reduced level from 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 the Defined Benefit 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% 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%. An additional one-tenth of a percent is added to the calculation for every year of earned Ohio service over 31 years (2.6% for 32 years, 2.7% for 33 years and so on) until 100% of final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5% instead of 2.2%. 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% 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 a 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 – The member allocates Member contributions, and employer contributions are used to fund a defined benefit payment. A member's defined benefit is determined by multiplying 1% 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.

**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005**

Eligible faculty of Ohio' public colleges and universities may choose to enroll in either STRS Ohio or an alternative retirement plan (ARP) offer by their employer. Employees have 120 days from their employment date to select a retirement plan.

A retiree of STRS Ohio or another Ohio 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 a money-purchase benefit or a lump-sum payment in addition to the original retirement allowance.

Benefits are increased annually by 3% of the original base amount for Defined Benefit Plan participants.

The Defined Benefit and Combined Plans offer access to health care coverage to eligible retirees who participated in the plans and their eligible dependent. 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 Defined Benefit 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 these active 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 Defined Benefit 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. Contributions rate are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers.

For the fiscal year ended June 30, 2005, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. The School District's required contribution for pension obligations for the fiscal years ended June 30, 2005, 2004 and 2003 were \$3,187,250, \$3,047,237 and \$2,959,226, respectively; 85.0 percent has been contributed for fiscal year 2005 and 100 percent has been contributed for fiscal years 2004 and 2003. The unpaid contribution for fiscal year 2005 is \$480,871.

STRS Ohio issues a stand-alone financial report. Copies of STRS Ohio 2005 Comprehensive Annual Financial Report will be available after January 1, 2006. Additional information or copies of STRS Ohio's 2005 Comprehensive Annual Financial Report can be requested by writing to STRS Ohio, 275 E. Board St., Columbus, Ohio 43215-3771, by calling (614) 227-4090, or by visiting the STRS OhioWeb site at www.strsoh.org.

NOTE 11 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

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

**MARION CITY SCHOOL DISTRICT
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**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005**

After the allocation for basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. At June 30, 2005, the healthcare allocation is 3.43 percent. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay was established at \$27,400. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund.

Health care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150% of annual health care expenses, before premium deduction. Net expenses for health care at June 30, 2005 (the latest information available), were \$178,221,113. At June 30, 2005, the Retirement System's net assets available for payment of health care benefits of \$267.5 million which is about 168% of next years' projected net health care costs of \$158,776,151. On the basis of actuarial projections, the allocated contribution will be insufficient, in the long-term, to provide for a health care reserve equal to at least 150% of estimated annual net claim costs. The number of recipients currently receiving health care benefits is approximately 58,123.

The Retirement Board allocates employer contributions to the Health Care Stabilization Fund from which health care benefits are paid. For fiscal year June 30, 2005, the Board allocated employer contributions equal to 3.43 percent of covered payroll and adding the surcharge due to the Health Care Reserve Fund. For the school district, the amount to fund health care benefits, including surcharge, equaled \$230,777 for the fiscal year ended June 30, 2005.

B. State Teachers Retirement System

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

The R.C. grants authority to STRS Ohio to provide health care coverage to eligible benefit recipients, spouses and dependents. By Ohio Law, health care benefits are not guaranteed and the cost of the coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently 14% of covered payroll.

The Retirement Board allocates employer contributions to the Health Care Stabilization Fund from which health care benefits are paid. For fiscal year June 30, 2005, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the school district, this amount equaled \$245,173 for the fiscal year ended June 30, 2005.

For the fiscal year ended June 30, 2004 (the latest information available) net health care costs paid by STRS Ohio were \$268,739,000. There were 111,853 eligible benefit recipients.

**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005**

NOTE 12 - LONG-TERM LIABILITIES

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

	Principal Outstanding 06/30/04	Additions	Reductions	Principal Outstanding 06/30/05	Amounts Due In One Year
<u>Governmental Activities</u>					
School Facilities Construction & Improvement Bonds 2000, 4.4 to 5.36% Matures 12/1/2022	\$ 14,635,000	\$ -	\$ 380,000	\$ 14,255,000	\$ 470,000
Bus Notes 2.75%; Matures 11/15/2005	63,889	-	44,839	19,050	19,050
Athletic Note 4.2% Matures 9/10/2019	372,221	-	24,815	347,406	24,815
Compensated Absences	3,443,965	-	199,287	3,244,678	558,110
Capital Lease Payable	98,529	164,363	80,216	182,676	44,522
Total Governmental Activities Long-Term Liabilities	<u>\$ 18,613,604</u>	<u>\$ 164,363</u>	<u>\$ 729,157</u>	<u>\$ 18,048,810</u>	<u>\$ 1,116,497</u>
<u>Business-Type Activities</u>					
Compensated Absences Payable	\$ 80,881	\$ -	\$ 10,599	70,282	\$ 526
Total Business Type Activities Long-Term Liabilities	<u>\$ 80,881</u>	<u>\$ -</u>	<u>\$ 10,599</u>	<u>\$ 70,282</u>	<u>\$ 526</u>

Compensated absences will be paid from the fund from which the employees' salaries are paid. Capital leases will be paid from the General Fund.

During the 2001 fiscal year, the School District issued General Obligation Bonds to provide funds for constructing a high school and three elementary schools; renovating, remodeling and improving existing school buildings and facilities, including converting the existing middle school to an elementary school, improving access for the disabled and health and safety upgrades; furnishing and equipping the same, including technology for classroom instruction; and landscaping and improving the sites thereof. The General Obligation Bonds are a general obligation of the School District that contains a pledge of the full faith and credit of the School District. Payments of principal and interest relating to the General Obligation Bond are recorded as expenditures in the Debt Service Fund. The source of payment is derived from a current 3.69 mill bonded debt tax levy. In conjunction with the 3.69 mills which supports the General Obligation Bonds, the School District also passed in fiscal year 2000 a .5 mill levy to ultimately fund the maintenance costs of the new facility. Tax revenue from this levy has been reported in the Classroom Facilities Maintenance Fund.

The annual requirements to amortize the School District's general obligation bonds outstanding as of June 30, 2005, including interest are as follows:

**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005**

Fiscal Year Ending June 30	Principal	Interest	Total
2006	513,864	792,553	\$ 1,306,417
2007	529,814	768,341	1,298,155
2008	564,815	742,345	1,307,160
2009	589,815	714,642	1,304,457
2010	614,815	685,443	1,300,258
2011-2015	3,609,074	2,845,516	6,454,590
2016-2020	4,754,259	1,633,764	6,388,023
2021-2023	3,445,000	297,296	3,742,296
Total	<u>\$ 14,621,456</u>	<u>\$ 8,479,900</u>	<u>\$ 23,101,356</u>

NOTE 13 - CAPITALIZED LEASES - LESSEE DISCLOSURE

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

The terms of each agreement provide options to purchase the equipment. Each lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13 "Accounting for Leases" which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee at the conclusion of the lease term. Capital lease payments have been reclassified and are reflected as debt service expenditures in the Statement of Revenues, Expenditures and Changes in Fund Balances for the Governmental Funds. A liability was recorded in the Government Wide Financial Statements for \$182,676. Principal payments in the fiscal year 2005 totaled \$80,216. This amount is reflected as "Debt Service Principal" in the General Fund.

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the future minimum lease payments as of June 30, 2005:

2006	\$ 55,933
2007	47,463
2008	47,462
2009	47,464
2010	13,133
Total Minimum Lease Payments	<u>211,455</u>
Less: Amount Representing Interest	<u>(28,779)</u>
Present Value of Future Minimum Lease Payment	<u>\$ 182,676</u>

NOTE 14- SET ASIDES

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

**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005**

	Capital Maintenance Reserve	Textbook Reserve
Balance 7/1/04	\$ -	\$ 556,977
Required Set-Aside	758,641	758,641
Qualifying Expenditures	<u>(758,641)</u>	<u>(282,629)</u>
Balance 6/30/05	<u>\$ -</u>	<u>\$ 1,032,989</u>
Amount Carried Forward to Fiscal Year 2006	<u>\$ -</u>	<u>\$ 1,032,989</u>
Total Restricted Assets	<u>\$ -</u>	<u>\$ 1,032,989</u>

NOTE 15 - MARION CITY SCHOOLS DIGITAL ACADEMY

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

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

Current Assets	\$100,914
Non-Current Assets	<u>21,083</u>
Total Assets	<u>\$121,997</u>
Current Liabilities	\$ 48,186
Investment in Capital Assets, Net of Related Debt	\$ 21,083
Unrestricted Net Assets	<u>52,728</u>
Total Net Assets	<u>\$ 73,811</u>

NOTE 16 – OPERATING TRANSFERS

Transfers made from the general fund are to finance, mainly, operations in food service fund and athletic fund. Carry-over funds from grants are also transferred to current year grants. The following operating transfers were made this fiscal year:

Fund:	Transfers Out	Transfers In
General	\$ 803,047	\$ -
Classroom Facilities	-	532,186
Food Service	-	220,861
Athletic Fund	-	50,000
	<u>\$ 803,047</u>	<u>\$ 803,047</u>

**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005**

NOTE 17 - CONTINGENT LIABILITIES

A. Grants

The School District receives significant financial assistance from numerous federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the School District at June 30, 2005.

B. Litigation

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

C. School Funding Decision

On December 11, 2003, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding plan is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient..." The School District is currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

NOTE 18 – SUBSEQUENT EVENTS

In December 2005, the School District Board approved the sale of the following five tracks of land totaling \$301,000 in revenue:

Glenwood	2.173 acres at \$68,000
Oakland	1.798 acres at \$66,000
Pearl	1.850 acres at \$45,000
Mark Street	2.610 acres at \$56,000
Taft Middle School	3.850 acres at \$66,000

**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005**

NOTE 19 – RESTATEMENT OF BEGINNING FUND BALANCES AND NET ASSETS

The School District’s 2005 basic financial statement reflect prior period adjustments to the General Fund and other governmental fund balances to properly reflect the School District’s obligation for contractually obligated pension liabilities, in accordance with GASB Technical Bulletin No. 2004-2, Recognition of Pension and Other Post-employment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers, issued in December 2004. This adjustment had the following effect on beginning fund balances:

	General Fund	Other Governmental Funds
Beginning Fund Balances, as previously reported	\$ 327,534	\$ 1,828,152
Intergovernmental Payable-Pension Liability	(300,299)	(13,875)
Beginning Fund Balances, as restated	\$ 27,235	\$ 1,814,277

The Statement of Activities Governmental Activities beginning net assets was restated due to improperly recording intergovernmental receivables.

	Governmental Activities
Beginning Net Assets, as previously reported	\$ 79,623,129
Intergovernmental Receivables	(714,358)
Beginning Net Assets, as restated	\$ 78,908,771



**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Marion City School District
To the Board of Education of the Marion City School District

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Marion City School District, Marion County, Ohio (the District) as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 10, 2006. As discussed in Note 19 to the basic financial statements, the District has implemented Government Accounting Standards Board Technical Bulletin No. 2004-2. Except as discussed in that report, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect District's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the accompanying schedule of findings as item 2005-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed three instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. These instances of noncompliance are described in the accompanying schedule of findings as items 2005-2 through 2005-4.

Marion City School District
Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*
Page 2

We also noted other matters that we reported to management of the District in a separate letter dated March 10, 2006.

This report is intended solely for the information and use of the District management, Board of Education, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Kennedy, Cottrell + Associates LLC

Kennedy, Cottrell + Associates LLC
March 10, 2006



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

Marion City School District
To the Board of Education of the Marion City School District

Compliance

We have audited the compliance of the Marion City School District, Marion County, Ohio (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal programs for the year ended June 30, 2005. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2005. However, the results of our auditing procedures disclosed one instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2005-5.

Internal Control over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

However, we did note one matter that we reported to management of the District in a separate letter dated March 10, 2006.

This report is intended solely for the information and use of the District management, Board of Education, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Kennedy, Cottrell + Associates LLC

Kennedy, Cottrell + Associates LLC
March 10, 2006

**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2005**

<u>Federal Grantor/ Pass Through Grantor Program Title</u>	<u>Federal CFDA Number</u>	<u>Agency or pass through number</u>	<u>Receipts</u>	<u>Non-Cash Receipts</u>	<u>Expenditures</u>	<u>Non-Cash Expenditures</u>
<u>U.S. DEPARTMENT OF AGRICULTURE</u>						
<i>Passed Through the Ohio Department of Education</i>						
Child Nutrition Cluster:						
Food Distribution Program	10.550	n/a	93,707		93,707	
National School Breakfast Program	10.553	044339 05PU 04-05	141,179	-	141,179	-
National School Lunch Program	10.555	044339 LLP1 04-05	7,981	-	7,981	-
	10.555	044339 LLP4 04-05	768,235	-	768,235	-
Total National School Lunch Program			776,216	-	776,216	-
Summer Food Service Program for Children	10.559	044339 23PU 04	34,590	-	34,590	-
	10.559	044339 24PU 04	4,881	-	4,881	-
Total Summer Food Service Program for Children			39,471	-	39,471	-
Total Child Nutrition Cluster			1,050,573	-	1,050,573	-
Team Nutrition	10.574	044339 TWAD 04	-	-	9,780	-
Total U.S. Department of Agriculture - Child Nutrition Cluster			1,050,573	-	1,060,353	-
<u>U.S. DEPARTMENT OF EDUCATION</u>						
<i>Passed Through the Ohio Department of Education</i>						
Special Education Cluster:						
Special Education Grants to States	84.027	044339 6BSD 04-05	26,184	-	19,237	-
	84.027	044339 6BSF 04-05	975,064	-	963,341	-
Total Special Education Grants to States			1,001,248	-	982,578	-
Special Education - Preschool	84.173	044339 PGD7 04	5,644	-	5,613	-
	84.173	044339 PGS1 04-05	37,756	-	35,698	-
Total Special Education - Preschool			43,400	-	41,311	-
Total Special Education Cluster			1,044,648	-	1,023,889	-
Adult Education: State Grant Program	84.002	044339 ABS1 04-05	93,171	-	95,298	-
Title I - Grants to Local Educational Agencies	84.010	044339 C1S1 04-05	1,747,797	-	1,562,755	-
Safe and Drug-Free Schools and Communities State Grants	84.186	044339 DRS1 04-05	74,452	-	67,788	-
Innovative Educational Program Strategies	84.298	044339 C2S1 04-05	23,604	-	32,582	-
Technology Literacy Challenge Fund Grant	84.318	044339 TJS1 03-05	52,563	-	44,916	-
Comprehensive School Reform Demonstration	84.332	044339 RFCC 04	-	-	(12,071)	-
English Language Acquisition Grants	84.365	044339 T3S1 04-05	18,879	-	13,017	-
	84.365	044339 T3S2 04-05	6,026	-	4,156	-
Total English Language Acquisition Grants			24,905	-	17,173	-
Improving Teacher Quality State Grants	84.367	044339 TRS1 04-05	447,047	-	424,271	-
Total U.S. Department of Education			3,508,187	-	3,256,601	-
<u>U.S. CORPORATION FOR NATIONAL AND COMMUNITY SERVICE</u>						
<i>Passed Through the Ohio Department of Education</i>						
Learn and Serve America School and Community Based	94.004	044339 SVS1 04	5,360	-	7,789	-
Total U.S. Corporation for National and Community Service			5,360	-	7,789	-
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>						
<i>Passed Through the Ohio Department of Mental Retardation and Developmental Disabilities</i>						
State Children's Insurance Program	93.767	n/a	44,960	-	44,960	-
Medical Assistance Program	93.778	n/a	349,722	-	379,722	-
Total U.S. Department of Health and Human Services			394,682	-	424,682	-
TOTAL FEDERAL AWARDS RECEIPTS AND EXPENDITURES			4,958,802	-	4,749,425	-

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

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

NOTES TO THE SCHEDULE RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS

JUNE 30, 2005

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – FOOD DISTRIBUTION

Nonmonetary assistance, such as food received from the U.S. Department of Agriculture, is reported in the Schedule at the fair market value of the commodities received and consumed. Cash receipts from the U.S. Department of Agriculture are commingled with state grants. It is assumed federal monies are expended first. At June 30, 2005, the District had no significant food commodities in inventory.

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 § .505**

JUNE 30, 2005

1. SUMMARY OF AUDITOR'S RESULTS
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(d)(1)(i)	Type of Financial Statement Opinion	Qualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	Yes
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	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 weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510(a) of Circular A-133?	Yes
(d)(1)(vii)	Major Programs (list):	Special Education, Part B-IDEA CFDA # 84.027 Child Nutrition Cluster CFDA # 10.550, 10.553, 10.555 Title I CFDA # 84.010
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$300,000 Type B: All others
(d)(1)(ix)	Low Risk Auditee?	No

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 § .505**

JUNE 30, 2005

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

2005-1 MATERIAL WEAKNESS – LACK OF DOCUMENTATION FOR CAPITAL ASSETS

Sound accounting practice requires maintaining a capital asset accounting system that incorporates sufficient information to enable the District to prepare financial statements in accordance with accounting standards generally accepted in the United States of America (GAAP). In order to ensure that all reporting requirements under GAAP are being met, each building that has responsibility for purchasing, maintaining and/or disposing of capital assets is required to gather data regarding each capital asset acquisition, transfer, or disposal.

Sound accounting practice further requires that each capital asset be assigned a unique capital asset number for tracking purposes as well as to identify that asset as property of the District. In addition, accurate records of asset cost and accumulated depreciation must be maintained.

Through our review of the District's procedures relating to the acquisition, transfer, and disposal of capital assets, we noted the following exceptions:

- District buildings responsible for purchasing, maintaining and/or disposing of capital assets are not required to communicate necessary asset data to the Treasurer's Office, such as description, location, and identification code(s);
- newly acquired capital assets were not assigned a unique capital asset number;
- newly acquired capital assets were not recorded in a timely manner nor with sufficient detail;
- capital asset disposals were not adequately supported; and
- detailed records of asset cost and accumulated depreciation were not maintained.

The lack of communication between the buildings purchasing assets and the Treasurer's Office results in the District's inability to accurately record necessary data in the District's capital asset management system. The failure to assign each asset with a unique capital asset number inhibits the District's tracking capabilities in the event of asset relocation. Most importantly, the lack of detailed records of asset cost and accumulated depreciation limits management's assurance that amounts reported in the District's financial statements are accurate and complete.

We recommend the District first perform a complete physical inventory of capital assets and utilize the results to update their capital asset management system. Once the District's capital asset management system has been updated, the District must then begin requiring individual District buildings to communicate capital asset acquisition, transfer and disposal data to the Treasurer's Office on an as-needed basis. As it is provided with this data, the Treasurer's Office must in turn provide the individual buildings with a unique capital asset number, if applicable, and must record the asset data in the District's capital asset management system in a timely manner. The District should also require building principals or other responsible officials to approve capital asset transfer and disposal forms which would assist in tracking capital assets.

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 § .505**

JUNE 30, 2005

2005-2 NONCOMPLIANCE - APPROPRIATIONS EXCEEDING TOTAL ESTIMATED RESOURCES

Ohio Revised Code Section 5705.39 states that total appropriations from each fund shall not exceed the total of the estimated revenue available for expenditure there from, as certified by the budget commission. No appropriation measure shall become effective until the county auditor files with the appropriating authority a certificate that the total appropriations from each fund, taken together with all other outstanding appropriations, do not exceed such official estimate or amended official estimate.

During our testing throughout the audit period we noted the following funds had appropriations in excess of total estimated resources:

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 § .505**

JUNE 30, 2005

Fund Name	Month Ending	Estimated Resources	Appropriations	Excess
General Fund	09/04 - 12/04	\$ 39,550,366	\$ 40,082,489	\$ 532,123
	01/05 - 05/05	40,012,682	40,082,489	69,807
Food Service	09/04 - 12/04	1,616,056	1,625,000	8,944
	01/05 - 05/05	1,616,209	1,679,886	63,677
Disadvantaged Pupil Impact Aid	09/04 - 12/04	700,000	1,147,200	447,200
Ohio Reads	07/04 - 08/04	10,641	15,000	4,359
Student Intervention	07/04 - 08/04	(13,333)	69,000	82,333
	09/04 - 12/04	(13,333)	86,995	100,328
Adult Basic Education	09/04 - 12/04	101,679	151,270	49,591
	01/05 - 05/05	101,576	156,036	54,460
IDEA, Part B	07/04 - 08/04	101,033	235,500	134,467
Special Education	09/04 - 12/04	101,033	1,214,603	1,113,570
	01/05 - 05/05	194,524	1,323,327	1,128,803
Title III - Limited English Proficiency	07/04 - 09/04	359	8,600	8,241
	08/04 - 12/05	359	19,570	19,211
	01/05 - 05/05	9,698	23,609	13,911
Title I Disadvantaged Children	09/04 - 12/05	1,311,506	1,851,929	540,423
Title V - Innovative Education Programs	01/05 - 05/05	28,362	39,527	11,165
	06/05	36,966	50,940	13,974
Safe and Drug Free Schools	07/04 - 08/04	8,068	11,050	2,982
	09/04 - 12/05	8,068	65,150	57,082
	01/05 - 05/05	29,154	51,176	22,022
IDEA Preschool Handicapped Grant	09/04 - 12/04	28,826	50,348	21,522
	01/05 - 05/05	24,314	45,682	21,368
Improving Teacher Quality	09/04 - 12/05	394,179	450,103	55,924
	01/05 - 05/05	441,600	446,247	4,647
Miscellaneous Federal Grants	06/05	56,517	56,527	10

We recommend the District more closely monitor its appropriations in respect to its estimated resources in order to ensure appropriations do not exceed total estimated resources in each fund.

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 § .505**

JUNE 30, 2005

2005-3 NONCOMPLIANCE – EXPENDITURES EXCEEDING APPROPRIATIONS

Ohio Rev. Code Section 5705.41(B) states, in part that no subdivision or taxing unit shall make any expenditure of money unless it has been appropriated against an appropriate fund. Expenditures may not exceed appropriations at the legal level of budgetary control. In Ohio, the legal level of budgetary control is the level at which the appropriation measure is passed by the legislative authority of a local government.

Budgetary expenditures exceeded appropriations at the legal level of control in the following funds at June 30, 2005:

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 § .505**

JUNE 30, 2005

<u>Fund</u>	<u>Fund / Function/ Object / Source Code</u>	<u>Appropriations</u>	<u>Budgetary Expenditures</u>	<u>Variance</u>
General	001 1100 600 0000	-	54,744	(54,744)
General	001 1200 200 0000	920,149	1,009,071	(88,922)
General	001 1200 400 0000	199,880	254,205	(54,325)
General	001 1400 600 0000	-	8,309	(8,309)
General	001 2100 200 0000	388,109	457,521	(69,412)
General	001 2100 600 0000	-	273	(273)
General	001 2200 100 0000	683,817	688,706	(4,889)
General	001 2200 200 0000	300,036	345,636	(45,600)
General	001 2300 200 0000	2,220	2,283	(63)
General	001 2300 400 0000	1,203	18,122	(16,919)
General	001 2300 500 0000	3,554	17,997	(14,443)
General	001 2400 100 0000	1,884,411	1,955,957	(71,546)
General	001 2400 200 0000	817,787	876,372	(58,585)
General	001 2500 200 0000	75,966	84,261	(8,295)
General	001 2600 200 0000	86,005	95,217	(9,212)
General	001 2600 400 0000	51,550	57,625	(6,075)
General	001 2600 800 0000	1,907	2,662	(755)
General	001 2700 200 0000	519,530	602,142	(82,612)
General	001 2700 400 0000	2,219,060	2,395,972	(176,912)
General	001 2700 500 0000	105,219	225,927	(120,708)
General	001 2700 800 0000	-	1,413	(1,413)
General	001 2800 100 0000	288,444	366,355	(77,911)
General	001 2800 200 0000	99,688	140,797	(41,109)
General	001 2800 400 0000	51,637	73,953	(22,316)
General	001 2800 600 0000	9,000	25,349	(16,349)
General	001 3200 400 0000	596,904	762,840	(165,936)
General	001 4100 400 0000	5,000	5,265	(265)
General	001 4600 100 0000	-	10,059	(10,059)
General	001 4600 200 0000	-	151	(151)
Food Service	006 3100 100 0000	446,368	630,206	(183,838)
Food Service	006 3100 200 0000	435,165	435,526	(361)
Food Service	006 3100 400 9005	-	5,797	(5,797)
Food Service	006 3100 500 9005	-	5,025	(5,025)

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 § .505**

JUNE 30, 2005

<u>Fund</u>	<u>Fund / Function/ Object / Source Code</u>	<u>Appropriations</u>	<u>Budgetary Expenditures</u>	<u>Variance</u>
Ohio Reads	459 1100 100 9505	2,717	3,465	(748)
Ohio Reads	459 1100 500 9505	3,500	6,549	(3,049)
Ohio Reads	459 1100 500 9905	1,050	5,209	(4,159)
Ohio Reads	459 2100 200 9604	-	7	(7)
Ohio Reads	459 2200 400 9905	-	3,075	(3,075)
Miscellaneous				
State Grants	499 2500 400 9705	-	1,975	(1,975)
Adult Education	501 1400 500 9005	7,088	7,745	(657)
IDEA, Part B				
Special Education	516 2200 100 9005	387,122	452,289	(65,167)
Title I	572 1200 100 9005	224,368	228,978	(4,610)
Title V - Innovative				
Education Programs	573 2200 400 9005	20,985	43,476	(22,491)
Safe and Drug	584 1100 400 9005	8,496	12,889	(4,393)
Free Schools	584 1100 500 9005	12,007	18,267	(6,260)

In addition to the excess expenditures noted above, during 2005, the District approved its original appropriation measure at the object level thus establishing their "legal level of budgetary control". During the year, the District passed two supplemental appropriation measures at a higher level than the legal level established.

We recommend that the District file an amended appropriation measure with the county budget commission if expenditures are likely to exceed appropriations at the legal level of budgetary control. This will ensure that all amounts are lawfully appropriated. We also recommend the District approve all appropriation measures and any amendments thereto at the established legal level of budgetary control.

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 § .505**

JUNE 30, 2005

2005-4 NONCOMPLIANCE – NEGATIVE CASH BALANCES

Ohio Revised Code Section 5705.10 states that money that is paid into a fund must be used only for the purposes for which such fund has been established. As a result, a negative cash balance indicates that money from one fund was used to cover the expenses of another fund.

During our testing throughout the audit period we noted several instances of negative cash balances. The following shows the number of instances and the largest negative cash amounts by fund.

Fund	Number of Months Negative	Month of Largest Negative	Amount of Largest Negative
Food Service	12	September	(476,765)
Ohio Reads	1	June	(1,382)
Student Intervention	2	August/September	(42,088)
Title I	10	September	(187,235)
Drug Free School Grant	10	August	(36,945)
Miscellaneous State Grants	3	May	(16,303)
Adult Basic Education	2	April	(6,001)
Idea Part B	1	February	(113,844)
Title III - Limited English	6	July/August	(3,715)
Idea Preschool Grant	2	May	(7,352)
Improving Teacher Quality	8	March	(184,210)

We recommend the District consider obtaining alternative funding sources or implementing cost cutting measures to ensure that monies paid into a fund are used for the purposes for which the fund has been established. Additionally, inter-fund transfers or advances, in certain circumstances, may be used as a means to subsidize or loan monies to these funds.

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 § .505**

JUNE 30, 2005

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
--

2005-5 NONCOMPLIANCE - PAYROLL DOCUMENTATION

Federal Agency:	U.S. Department of Agriculture
Passed Through:	Ohio Department of Education
Federal Award Year:	2004 and 2005
Program Name:	Child Nutrition Cluster
CFDA #:	10.553; 10.555

Federal Agency:	U.S. Department of Education
Passed Through:	Ohio Department of Education
Federal Award Year:	2004 and 2005
Program Name:	Title I
CFDA #:	84.010

Federal Agency:	U.S. Department of Education
Passed Through:	Ohio Department of Education
Federal Award Year:	2004 and 2005
Program Name:	Title VI-B; Special Education
CFDA #:	84.027

OMB Circular A-87, Attachment B, Section 8(h)(3), states, in part:

Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.

Furthermore, OMB Circular A-87, Attachment B, Section 8(h)(4), states, in part:

Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation....Such documentary support will be required where employees work on:

- (a) More than one Federal award,
- (b) A Federal award and a non Federal award,
- (c) An indirect cost activity and a direct cost activity,
- (d) Two or more indirect activities which are allocated using different allocation bases, or
- (e) An unallowable activity and a direct or indirect cost activity.

For personnel assigned to work solely on one federal grant, other than the regular food service employees, the District did not prepare the required semi-annual certifications, as described above. In addition, the District did not utilize timesheets that documented time devoted to federal grants by personnel who worked on multiple federal and/or non-federal activities

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 § .505**

JUNE 30, 2005

Without such documentation, the risk is increased that salaries and related fringe benefits could be inappropriately charged to a federal grant program and later result in questioned costs. Total payroll charges to the Child Nutrition Cluster, Title I and Title VI-B for fiscal year 2005 were \$660,547, \$574,822 and \$1,087,711, respectively.

We recommend the District assign a supervisory official having first hand knowledge of the work performed by grant employees to prepare semi-annual certifications documenting which employees worked solely on one grant program. We also recommend the District begin utilizing time and attendance reports to document hours devoted specifically to federal grant programs. Failure to implement these recommendations will result in questioned costs in future periods.

MARION CITY SCHOOL DISTRICT
MARION COUNTY, OHIO

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

JUNE 30, 2005

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Status</u>
2004-1	Inadequate support for food service receipts.	Fully Corrected.
2004-2	Inadequate support for student activity receipts.	Finding No Longer Valid
2004-3	Inadequate support for capital assets.	Not Corrected. Finding has been repeated.

CORRECTIVE ACTION PLAN

April 17, 2006

U.S. Department of Education

The Marion City School District respectfully submits the following corrective action plan of the year ended June 30, 2005.

Independent Public Accounting Firm
Kennedy, Cottrell + Associates
383 North Front Street
Columbus, OH 43215

The findings from the June 30, 2005 schedule of finding and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

FINDINGS – FINANCIAL STATEMENT AUDIT

REPORTABLE CONDITIONS:

2005-1

Because of the large turnover as well as reduction in staff within the Treasurer's Office, which resulted in inexperience of the new employees maintaining the capital asset accounting system. We will make every attempt to get the capital asset accounting records in compliance with GAAP accounting. This will be very difficult because of reduction of staff and the financial situation of Marion City School District.

NONCOMPLIANCE:

2005-2

We will utilize the same spreadsheet that is used by the auditors as well as change to the fund level of accountability for appropriation.

2005-3

We will utilize the same spreadsheet that is used by the auditors as well as change to the fund level of accountability for appropriation.

2005-4

Federal regulations require money to be expended prior to completing a project cash request form and requests can be made only once per month. The advances from the general fund are not an option at this time because of the financial situation of Marion City School District. We will attempt to alleviate the negative cash balance to the best of our ability.

FINDINGS – FEDERAL AWARD PROGRAMS AUDITS

DEPARTMENT OF AGRICULTURE
DEPARTMENT OF EDUCATION

2005-5

The required certificates and time and attendance reports for payroll documentation for federal programs for employees working in federal grants are currently being obtained for FY-06.

If the U.S. Department of Education has questions regarding this plan, please contact Bob Wood, Treasurer, Marion City School District, at 740-223-4378.

Sincerely yours,

Bob Wood, Treasurer



**Auditor of State
Betty Montgomery**

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P.O. Box 1140
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800-282-0370

Facsimile 614-466-4490

MARION CITY SCHOOL DISTRICT

MARION COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 18, 2006**