

MARION CITY SCHOOL DISTRICT

MARION COUNTY

AUDIT REPORT

For the Year Ended June 30, 2018



OHIO AUDITOR OF STATE KEITH FABER



Board of Education
Marion City School District
420 Presidential Drive, Suite B
Marion, Ohio 43302

We have reviewed the *Independent Auditor's Report* of the Marion City School District, Marion County, prepared by Charles E. Harris & Associates, Inc., for the audit period July 1, 2017 through June 30, 2018. 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 "Keith Faber".

Keith Faber
Auditor of State
Columbus, Ohio

January 31, 2019

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**MARION CITY SCHOOL DISTRICT
MARION COUNTY
AUDIT REPORT
For the Year Ended June 30, 2018**

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MARION COUNTY
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REPORT OF INDEPENDENT AUDITORS

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

To the Board of Education:

Report on the Financial Statements

We have audited the accompanying modified cash basis 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, 2018, and the related notes to the financial statements, which collectively comprise District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the presentation of the financial statements in the circumstances. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position 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, as of June 30, 2018, and the respective changes in modified cash basis financial position and the budgetary comparison for the General Fund thereof for the year then ended in accordance with the modified cash basis of accounting described in Note 1.

Basis of Accounting

Ohio Administrative Code § 117-2-03(B) requires the District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. We draw attention to Note 1 of the financial statements, which describes the basis applied to these statements. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Emphasis of Matter

As discussed in Note 18 to the financial statements, during the year ended June 30, 2018, the District adopted new guidance in Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. We did not modify our opinion regarding this matter.

Other Matters

Supplemental Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Marion City School District, Marion County, Ohio's basic financial statements. The Schedule of Expenditures of Federal Awards is presented for the purpose of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the financial statements.

The Schedule is management's responsibility, and derives from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected this Schedule to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this Schedule directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and in accordance with auditing standards generally accepted in the United States of America. In our opinion, this Schedule is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Information

We applied no procedures to management's discussion & analysis, schedules of net pension and other post-employment benefit liabilities and pension and other post-employment benefit contributions as listed in the table of contents. Accordingly, we express no opinion or any other assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 27, 2018 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 solely 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 effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Charles E. Harris & Associates, Inc.
December 27, 2018

MARION CITY SCHOOL DISTRICT, OHIO

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018*

Unaudited

The discussion and analysis of Marion City School District's financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2018. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the financial statements and notes to the basic financial statements to enhance their understanding of the District's financial performance.

FINANCIAL HIGHLIGHTS

Key financial highlights for 2018 are as follows:

- ❑ In total, net position increased \$2,168,485. Net position of governmental activities increased \$2,117,091, which represents a 14% increase from 2017. Net position of business-type activities increased \$51,394 or 5% from 2017.
- ❑ General receipts accounted for \$53,716,760 or 81% of all receipts for governmental activities. Program specific receipts in the form of charges for services and grants and contributions accounted for \$12,427,477 or 19% of total governmental receipts of \$66,144,237.
- ❑ The District had \$64,047,752 in disbursements related to governmental activities; \$12,427,477 of these disbursements were offset by program specific charges for services and operating grants or contributions. General receipts of \$53,716,760 and net position were adequate to provide for these programs.
- ❑ Among major funds, the General Fund had \$58,737,623 in receipts and \$56,822,319 in disbursements. The General Fund's fund balance increased \$1,276,664 to \$11,583,342.
- ❑ Net position for the enterprise funds increased \$52,308.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report is presented in a format consistent with the presentation requirements of Governmental Accounting Standards Board Statement No. 34, as applicable to the District's modified cash basis of accounting.

Report Components

The statement of net position and the statement of activities provide information about the modified cash activities of the District as a whole. Fund financial statements provide a greater level of detail. Funds are created and maintained on the financial records of the District as a way to segregate money whose use is restricted to a particular specified purpose. These statements present financial information by fund, presenting funds with the largest balances or most activity in separate columns. The notes to the financial statements are an integral part of the District's government-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the statements.

MARION CITY SCHOOL DISTRICT, OHIO

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018*

Unaudited

Basis of Accounting

The basis of accounting is a set of guidelines that determine when financial events are recorded. The District has elected to present its financial statements on a modified cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Under the District's modified cash basis of accounting, receipts and disbursements are recorded when cash is received or paid. As a result of using the modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable) and certain liabilities and their related expenses (such as accounts payable) are not recorded in the financial statements. Therefore, when reviewing the financial information and discussion within this report, the reader must keep in mind the limitations resulting from the use of the modified cash basis of accounting.

Government-Wide Statements

The statement of net position and the statement of activities reflect how the District did financially during 2018, within the limitations of modified cash basis accounting. The statement of net position presents the cash balances and investments of the governmental activities of the District at fiscal year-end. The statement of activities compares cash disbursements with program receipts for each governmental program. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts and interest are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function draws from the District's general receipts. These statements report the District's cash position and the changes in cash position. Keeping in mind the limitations of the modified cash basis of accounting, you can think of these changes as one way to measure the District's financial health. Over time, increases or decreases in the District's cash position is one indicator of whether the District's financial health is improving or deteriorating. When evaluating the District's financial condition, you should also consider other nonfinancial factors as well such as the District's property tax base, the condition of the District's capital assets, the extent of the District's debt obligations, the reliance on non-local financial resources for operations and the need for continued growth in the major local revenue sources such as property taxes.

The government-wide financial statements of the District are divided into two categories:

Governmental Activities – Most of the District's programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities.

Business-Type Activities – These services are provided on a charge for goods or services basis to recover all of the costs of the goods or services provided. The District's food service fund is reported as business-type activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's most significant funds, not the District as a whole. Funds are accounting devices that the District uses to keep track of specific sources of funding and spending for particular purposes.

MARION CITY SCHOOL DISTRICT, OHIO

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018*

Unaudited

Governmental Funds – Most of the District's activities are reported in governmental funds. The governmental fund financial statements provide a detailed view of the District's governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent to finance the District's programs. The District's significant governmental funds are presented on the financial statements in separate columns. The information for nonmajor funds (funds whose activity or balances are not large enough to warrant separate reporting) is combined and presented in total in a single column. The programs reported in governmental funds are closely related to those reported in the governmental activities section of the entity-wide statements. The relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is reconciled in the financial statements.

Proprietary Funds – When the District charges customers for the services it provides, these services are generally reported in proprietary funds. When the services are provided to the general public, the activity is reported as an enterprise fund. When the services are provided to other departments of the District, the service is reported as an internal service fund.

Fiduciary Funds – The District is the trustee, or fiduciary, for various student managed activity programs, various scholarship programs and other items listed as agency. It is also responsible for other assets that, due to a trust arrangement can only be used for the trust beneficiaries. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Position and Changes in Fiduciary Net Position. We exclude these activities from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE

The following table provides a summary of the District's net position for 2018 compared to 2017.

	Governmental		Business-type		Total	
	Activities		Activities			
	2018	2017	2018	2017	2018	2017
Cash and Investments	\$17,203,301	\$15,086,210	\$1,059,336	\$1,007,942	\$18,262,637	\$16,094,152
Total assets	<u>17,203,301</u>	<u>15,086,210</u>	<u>1,059,336</u>	<u>1,007,942</u>	<u>18,262,637</u>	<u>16,094,152</u>
Net position						
Restricted	3,205,711	4,106,127	0	0	3,205,711	4,106,127
Unrestricted	13,997,590	10,980,083	1,059,336	1,007,942	15,056,926	11,988,025
Total net position	<u>\$17,203,301</u>	<u>\$15,086,210</u>	<u>\$1,059,336</u>	<u>\$1,007,942</u>	<u>\$18,262,637</u>	<u>\$16,094,152</u>

The District's net position increased by 13%.

MARION CITY SCHOOL DISTRICT, OHIO

**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018**

Unaudited

Changes in Net Position – The following table shows the changes in net position for the fiscal year 2018 compared to 2017:

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Receipts						
Program Receipts:						
Charges for Services and Sales	\$2,854,027	\$3,040,627	\$111,892	\$184,125	\$2,965,919	\$3,224,752
Operating Grants	9,573,450	10,637,490	3,309,187	3,583,088	12,882,637	14,220,578
Total Program Receipts	<u>12,427,477</u>	<u>13,678,117</u>	<u>3,421,079</u>	<u>3,767,213</u>	<u>15,848,556</u>	<u>17,445,330</u>
General receipts/disbursements:						
Property Taxes	10,118,194	9,518,969	0	0	10,118,194	9,518,969
Payments in Lieu of Taxes	3,083	3,137	0	0	3,083	3,137
Grants and Entitlements	43,190,490	41,473,457	0	0	43,190,490	41,473,457
Refunding Bonds Issued	0	6,400,000	0	0	0	6,400,000
Other	404,993	376,157	0	388	404,993	376,545
Total General Receipts	<u>53,716,760</u>	<u>57,771,720</u>	<u>0</u>	<u>388</u>	<u>53,716,760</u>	<u>57,772,108</u>
Total Receipts	<u>66,144,237</u>	<u>71,449,837</u>	<u>3,421,079</u>	<u>3,767,601</u>	<u>69,565,316</u>	<u>75,217,438</u>
Program Disbursements						
Instruction	37,443,539	35,748,510	0	0	37,443,539	35,748,510
Support Services:						
Pupils	3,285,617	2,926,841	0	0	3,285,617	2,926,841
Instructional Staff	3,766,694	3,603,520	0	0	3,766,694	3,603,520
Board of Education	47,705	44,889	0	0	47,705	44,889
Administration	4,621,909	4,301,957	0	0	4,621,909	4,301,957
Fiscal Services	955,741	887,244	0	0	955,741	887,244
Business	419,571	559,076	0	0	419,571	559,076
Operation and Maintenance of Plant	4,412,049	6,617,948	0	0	4,412,049	6,617,948
Pupil Transportation	1,707,513	1,569,059	0	0	1,707,513	1,569,059
Central	1,237,685	1,337,920	0	0	1,237,685	1,337,920
Non-Instructional Services	3,696,294	4,974,318	0	0	3,696,294	4,974,318
Extracurricular Activities	1,019,253	945,443	0	0	1,019,253	945,443
Capital Outlay	24,523	10,671	0	0	24,523	10,671
Debt Service:						
Principal	1,232,332	596,724	0	0	1,232,332	596,724
Payment to Refunding Bond						
Escrow Agent	0	6,532,800	0	0	0	6,532,800
Interest and Fiscal Charges	177,327	876,901	0	0	177,327	876,901
Food Service	0	0	3,348,699	3,532,574	3,348,699	3,532,574
Uniform School Supplies	0	0	380	1,272	380	0
Total Disbursements	<u>64,047,752</u>	<u>71,533,821</u>	<u>3,349,079</u>	<u>3,533,846</u>	<u>67,396,831</u>	<u>75,066,395</u>
Excess (Deficiency) Before						
Transfers/Advances	2,096,485	(83,984)	72,000	233,755	2,168,485	149,771
Transfers/Advances In (Out)	20,606	39,153	(20,606)	(39,153)	0	0
Total Change in Net Position	<u>2,117,091</u>	<u>(44,831)</u>	<u>51,394</u>	<u>194,602</u>	<u>2,168,485</u>	<u>149,771</u>
Beginning Net Position	<u>15,086,210</u>	<u>15,131,041</u>	<u>1,007,942</u>	<u>813,340</u>	<u>16,094,152</u>	<u>15,944,381</u>
Ending Net Position	<u>\$17,203,301</u>	<u>\$15,086,210</u>	<u>\$1,059,336</u>	<u>\$1,007,942</u>	<u>\$18,262,637</u>	<u>\$16,094,152</u>

Governmental Activities

Net position of the District's governmental activities increased \$2,117,091. Overall, revenues decreased by less than what disbursements decreased. This allowed for such a large increase in net position.

MARION CITY SCHOOL DISTRICT, OHIO

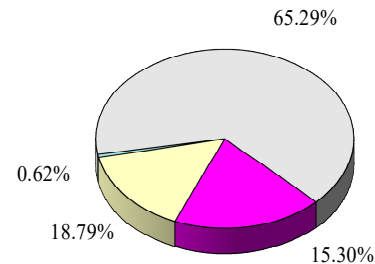
**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018**

Unaudited

The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. In general, the overall revenue generated by the levy will not increase solely as a result of inflation. As an example, a homeowner with a home valued at \$100,000 and taxed at 1.0 mill would pay \$35.00 annually in taxes. If three years later the home were reappraised and increased to \$200,000 (and this inflationary increase in value is comparable to other property owners) the effective tax rate would become .5 mills and the owner would still pay \$35.00. However, the assessed millage for the District has already been reduced to the 20 mill floor. Consequently, the District will receive some increased revenues as property values increase with reappraisals.

Property taxes made up 15.30% of receipts for governmental activities for Marion City Schools in fiscal year 2018. The District's reliance upon tax receipts is demonstrated by the following graph:

Revenue Sources	2018	Percent of Total
General Grants	\$43,190,490	65.29%
Program Revenues	12,427,477	18.79%
General Tax Revenues	10,121,277	15.30%
General Other	404,993	0.62%
Total Revenue	\$66,144,237	100.00%



Business-Type Activities

Net position of the business-type activities increased \$51,394. Business-type activities receive no support from tax revenues and remain self-supporting.

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT'S FUNDS

The District's governmental funds reported a combined fund balance of \$14,789,053, which is an increase from last year's balance of \$12,644,041. The schedule below indicates the fund balance and the total change in fund balance by fund type as of June 30, 2018 and 2017.

	Fund Balance June 30, 2018	Fund Balance June 30, 2017	Increase (Decrease)
General	\$11,583,342	\$10,306,678	\$1,276,664
Other Governmental	3,205,711	2,337,363	868,348
Total	\$14,789,053	\$12,644,041	\$2,145,012

MARION CITY SCHOOL DISTRICT, OHIO

**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018**

Unaudited

General Fund – The District's General Fund balance decrease was due to many factors. The tables that follow assist in illustrating the financial activities and balance of the General Fund:

	2018 <u>Receipts</u>	2017 <u>Receipts</u>	Increase <u>(Decrease)</u>
Taxes	\$8,874,607	\$8,335,132	\$539,475
Payment in Lieu of Taxes	3,083	3,137	(54)
Tuition and Fees	2,545,839	2,623,128	(77,289)
Investment Earnings	134,297	107,933	26,364
Extracurricular Activities	54,924	37,700	17,224
Intergovernmental	46,855,063	45,447,681	1,407,382
All Other Revenue	269,810	826,371	(556,561)
Total	<u>\$58,737,623</u>	<u>\$57,381,082</u>	<u>\$1,356,541</u>

General Fund receipts in 2018 increased by 2.4%. The increase is the result of an increase in the funding from the State.

	2018 <u>Disbursements</u>	2017 <u>Disbursements</u>	Increase <u>(Decrease)</u>
Instruction	\$35,337,469	\$33,708,888	\$1,628,581
Supporting Services:			
Pupils	3,094,984	2,786,229	308,755
Instructional Staff	1,060,848	1,120,438	(59,590)
Board of Education	47,705	44,889	2,816
Administration	4,562,170	4,219,885	342,285
Fiscal Services	916,943	859,824	57,119
Business	419,363	567,404	(148,041)
Operation & Maintenance of Plant	3,955,944	3,972,404	(16,460)
Pupil Transportation	1,546,731	1,399,796	146,935
Central	1,237,146	1,352,189	(115,043)
Operation of Non-Instructional Services	3,620,936	4,904,811	(1,283,875)
Extracurricular Activities	772,521	745,574	26,947
Capital Outlay	7,152	10,671	(3,519)
Principal Retirement	187,332	211,724	(24,392)
Interest and Fiscal Charges	55,075	83,295	(28,220)
Total	<u>\$56,822,319</u>	<u>\$55,988,021</u>	<u>\$834,298</u>

General fund expenditures increased by 1.4% during 2018 compared to 2017. The largest increase came in the Instruction disbursements.

MARION CITY SCHOOL DISTRICT, OHIO

***Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018***

Unaudited

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

During the course of fiscal year 2018 the District amended its General Fund budget. Final budget basis revenue of \$59.4 million was the same as the original estimates of \$59.4. Actual budget basis revenue was \$58.6 million during the year.

Debt

At June 30, 2018, the District had \$5.4 million in bonds outstanding, \$1,020,000 due within one year. The following table summarizes the District's long term obligations as of June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Governmental Activities:		
General Obligation Bonds	\$5,355,000	\$6,400,000
General Obligation Notes	1,623,791	1,769,938
Capital Leases Payable	<u>0</u>	<u>39,192</u>
Totals	<u><u>\$6,978,791</u></u>	<u><u>\$8,209,130</u></u>

Under current state statutes, the District's general obligation bonded debt issues are subject to a legal limitation based on 9% of the total assessed value of real and personal property. At June 30, 2018, the School District's overall legal debt margin was below the legal limit. Additional information on the District's long-term debt can be found in Note 10.

MARION CITY SCHOOL DISTRICT, OHIO

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018*

Unaudited

ECONOMIC FACTORS

Like most public school districts in Ohio, the Marion City School District relies on its property taxes along with state and federal aid to provide the funds necessary to maintain its educational programs. In recent years residential growth in Marion has been for the most part nonexistent, the economy of the community has been impacted by the national, state and local economic pressures. As a result, the school district has been forced to reduce costs. The Board of Education's willingness to confront difficult decisions regarding the instructional programs and staffing coupled with the community's willingness to provide additional funding has resulted in the stabilization of the District's financial condition.

Once again the state foundation dollars are now flowing through a new formula. This formula is known as the Bridge Formula. At this point, it is our understanding there will be yet another new formula that will be released. This formula will remain for the remainder of the current biennial budget. Currently, we are learning more and more detail to this new funding mechanism and the effects it has on Marion City Schools.

In conclusion, the Marion City School District has committed itself to financial excellence for many years.

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Veronica Reinhart, Treasurer of Marion City School District, 420 Presidential Drive, Suite B, Marion, Ohio 43302.

MARION CITY SCHOOL DISTRICT, OHIO

Statement of Net Position – Modified Cash Basis June 30, 2018

	Governmental Activities	Business-Type Activities	Total
Assets:			
Pooled Cash and Investments	\$ 17,203,301	\$ 1,059,336	\$ 18,262,637
Total Assets	17,203,301	1,059,336	18,262,637
Net Position:			
Restricted For:			
Capital Projects	573,357	0	573,357
Debt Service	943,449	0	943,449
Other Purposes	1,686,084	0	1,686,084
Permanent Fund:			
Nonexpendable	2,821	0	2,821
Unrestricted	13,997,590	1,059,336	15,056,926
Total Net Position	\$ 17,203,301	\$ 1,059,336	\$ 18,262,637

See accompanying notes to the basic financial statements

MARION CITY SCHOOL DISTRICT, OHIO

Statement of Activities – Modified Cash Basis For the Fiscal Year Ended June 30, 2018

	Expenses	Program Cash Receipts	
		Charges for Services and Sales	Operating Grants and Contributions
Governmental Activities:			
Instruction	\$ 37,443,539	\$ 2,545,839	\$ 7,132,345
Support Services:			
Pupils	3,285,617	0	102,633
Instructional Staff	3,766,694	0	1,850,854
Board of Education	47,705	0	0
Administration	4,621,909	0	198,367
Fiscal Services	955,741	0	0
Business	419,571	0	0
Operation and Maintenance of Plant	4,412,049	0	189,085
Pupil Transportation	1,707,513	0	51,748
Central	1,237,685	0	0
Operation of Non-Instructional Services	3,696,294	0	48,418
Extracurricular Activities	1,019,253	308,188	0
Capital Outlay	24,523	0	0
Principal Retirement	1,232,332	0	0
Interest and Fiscal Charges	177,327	0	0
Total Governmental Activities	64,047,752	2,854,027	9,573,450
Business-Type Activities:			
Food Service	3,348,699	111,492	3,309,187
Uniform School Supplies	380	400	0
Total Business-Type Activities	3,349,079	111,892	3,309,187
Totals	\$ 67,396,831	\$ 2,965,919	\$ 12,882,637

General Revenues

Taxes:

Property Taxes levied for: General Purposes
Property Taxes levied for: Classroom Facilities
Property Taxes levied for: Debt Service
Payment in Lieu of Taxes

Intergovernmental, Unrestricted

Investment Earnings

Miscellaneous

Advances

Total General Revenues

Change in Net Position

Net Position Beginning of Year

Net Position End of Year

See accompanying notes to the basic financial statements

MARION CITY SCHOOL DISTRICT, OHIO

Net (Disbursements) Receipts and Changes in Net Position		
Governmental Activities	Business-Type Activities	Total
\$ (27,765,355)	\$ 0	\$ (27,765,355)
(3,182,984)	0	(3,182,984)
(1,915,840)	0	(1,915,840)
(47,705)	0	(47,705)
(4,423,542)	0	(4,423,542)
(955,741)	0	(955,741)
(419,571)	0	(419,571)
(4,222,964)	0	(4,222,964)
(1,655,765)	0	(1,655,765)
(1,237,685)	0	(1,237,685)
(3,647,876)	0	(3,647,876)
(711,065)	0	(711,065)
(24,523)	0	(24,523)
(1,232,332)	0	(1,232,332)
(177,327)	0	(177,327)
(51,620,275)	0	(51,620,275)
0	71,980	71,980
0	20	20
0	72,000	72,000
(51,620,275)	72,000	(51,548,275)
8,874,607	0	8,874,607
132,725	0	132,725
1,110,862	0	1,110,862
3,083	0	3,083
43,190,490	0	43,190,490
134,883	0	134,883
270,110	0	270,110
20,606	(20,606)	0
53,737,366	(20,606)	53,716,760
2,117,091	51,394	2,168,485
15,086,210	1,007,942	16,094,152
\$ 17,203,301	\$ 1,059,336	\$ 18,262,637

MARION CITY SCHOOL DISTRICT, OHIO

Statement of Assets and Fund Balances – Modified Cash Basis
Governmental Funds
June 30, 2018

	General	Other Governmental Funds	Total Governmental Funds
Assets:			
Pooled Cash and Investments	\$ 11,583,342	\$ 3,205,711	\$ 14,789,053
Total Assets	<u>\$ 11,583,342</u>	<u>\$ 3,205,711</u>	<u>\$ 14,789,053</u>
Fund Balance:			
Nonspendable	0	2,821	2,821
Restricted	0	3,202,890	3,202,890
Assigned	2,480,457	0	2,480,457
Unassigned	9,102,885	0	9,102,885
Total Fund Balances	<u>\$ 11,583,342</u>	<u>\$ 3,205,711</u>	<u>\$ 14,789,053</u>

See accompanying notes to the basic financial statements

MARION CITY SCHOOL DISTRICT, OHIO

Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities – Modified Cash Basis June 30, 2018

Total Governmental Fund Balances	\$ 14,789,053
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*Amounts reported for governmental activities in the
statement of net position are different because*

Internal service funds are used by management to charge
the costs of insurance to individual funds. The assets
and liabilities of the internal service funds are included in
governmental activities in the statement of net position.

2,414,248

Net Position of Governmental Activities

<u>\$ 17,203,301</u>

See accompanying notes to the basic financial statements

MARION CITY SCHOOL DISTRICT, OHIO

Statement of Receipts, Disbursements and Changes in Fund Balances Governmental Funds – Modified Cash Basis For the Fiscal Year Ended June 30, 2018

	General	Other Governmental Funds	Total Governmental Funds
Receipts:			
Local Sources:			
Property Taxes	\$ 8,874,607	\$ 1,243,587	\$ 10,118,194
Payments in Lieu of Taxes	3,083	0	3,083
Tuition	2,544,199	0	2,544,199
Investment Earnings	134,297	586	134,883
Extracurricular Activities	54,924	149,981	204,905
Class Materials and Fees	1,640	0	1,640
Intermediate Sources	0	14,010	14,010
Intergovernmental - State	46,591,083	1,367,352	47,958,435
Intergovernmental - Federal	263,980	4,481,837	4,745,817
All Other Revenue	269,810	149,261	419,071
Total Receipts	58,737,623	7,406,614	66,144,237
Disbursements:			
Current:			
Instruction	35,337,469	2,088,790	37,426,259
Supporting Services:			
Pupils	3,094,984	188,794	3,283,778
Instructional Staff	1,060,848	2,703,432	3,764,280
Board of Education	47,705	0	47,705
Administration	4,562,170	57,452	4,619,622
Fiscal Services	916,943	38,445	955,388
Business	419,363	0	419,363
Operation and Maintenance of Plant	3,955,944	454,671	4,410,615
Pupil Transportation	1,546,731	159,850	1,706,581
Central	1,237,146	0	1,237,146
Operation of Non-Instructional Services	3,620,936	75,346	3,696,282
Extracurricular Activities	772,521	246,109	1,018,630
Capital Outlay	7,152	17,371	24,523
Debt Service:			
Principal Retirement	187,332	1,045,000	1,232,332
Interest and Fiscal Charges	55,075	122,252	177,327
Total Disbursements	56,822,319	7,197,512	64,019,831
Excess (Deficiency) of Receipts Over (Under) Disbursements	1,915,304	209,102	2,124,406

MARION CITY SCHOOL DISTRICT, OHIO

	General	Other Governmental Funds	Total Governmental Funds
Other Financing Sources (Uses):			
Advances In	569,384	257,964	827,348
Advances Out	(383,024)	(423,718)	(806,742)
Transfers In	0	825,000	825,000
Transfers Out	(825,000)	0	(825,000)
Total Other Financing Sources (Uses)	<u>(638,640)</u>	<u>659,246</u>	<u>20,606</u>
Net Change in Fund Balance	1,276,664	868,348	2,145,012
Fund Balance at Beginning of Year	<u>10,306,678</u>	<u>2,337,363</u>	<u>12,644,041</u>
Fund Balance End of Year	<u>\$ 11,583,342</u>	<u>\$ 3,205,711</u>	<u>\$ 14,789,053</u>

See accompanying notes to the basic financial statements

MARION CITY SCHOOL DISTRICT, OHIO

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MARION CITY SCHOOL DISTRICT, OHIO

***Reconciliation of the Statement of Receipts, Disbursements and
Changes in Fund Balances of Governmental Funds
To the Statement of Activities – Modified Cash Basis
For the Fiscal Year Ended June 30, 2018***

Net Change in Fund Balances - Total Governmental Funds \$ 2,145,012

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

The internal service funds are used by management to charge the costs of services to individual funds and is not reported in the statement of activities. Governmental fund expenditures and related internal service fund revenues are eliminated. The net revenue (expense) of the internal service funds are allocated among the governmental activities.

(27,921)

Change in Net Position of Governmental Activities

\$ 2,117,091

See accompanying notes to the basic financial statements

MARION CITY SCHOOL DISTRICT, OHIO

**Statement of Receipts, Disbursements and Changes in
Fund Balance – Budget and Actual (Budgetary Basis)
General Fund
For the Fiscal Year Ended June 30, 2018**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Local Sources:				
Property Taxes	\$ 8,860,570	\$ 8,860,570	\$ 8,874,607	\$ 14,037
Payment in Lieu of Taxes	3,136	3,136	3,083	(53)
Tuition	3,164,663	3,164,663	2,544,199	(620,464)
Transportation Fees	0	0	0	0
Investment Earnings	85,000	85,000	134,297	49,297
Extracurricular Activities	37,700	57,360	54,924	(2,436)
Class Material and Fees	1,640	1,640	1,640	0
Intergovernmental - State	46,546,492	46,546,492	46,591,083	44,591
Intergovernmental - Federal	417,453	417,453	263,980	(153,473)
All Other Revenues	313,960	313,960	156,132	(157,828)
Total Revenues	<u>59,430,614</u>	<u>59,450,274</u>	<u>58,623,945</u>	<u>(826,329)</u>
Expenditures:				
Current:				
Instructional Services:				
Regular	26,391,044	26,484,651	26,476,018	8,633
Special	8,627,926	8,627,926	8,419,984	207,942
Vocational	319,793	300,043	289,590	10,453
Other	159,977	159,977	159,977	0
Support Services:				
Pupils	3,098,869	3,098,869	3,094,984	3,885
Instructional Staff	1,126,450	1,129,450	1,063,094	66,356
Board of Education	50,631	50,631	47,705	2,926
Administration	4,464,704	4,459,789	4,459,789	0
Fiscal Services	1,090,742	1,090,742	916,943	173,799
Business	419,684	455,565	419,986	35,579
Operation and Maintenance of Plant	4,134,849	4,134,849	3,958,277	176,572
Pupil Transportation	1,549,711	1,549,711	1,549,711	0
Central	1,443,900	1,443,900	1,238,820	205,080
Operation of Non-Instructional Services	3,773,389	3,773,389	3,620,936	152,453
Extracurricular Activities	752,861	772,521	772,521	0
Capital Outlay	12,000	12,000	7,152	4,848
Debt Service:				
Principal Retirement	187,332	187,332	187,332	0
Interest and Fiscal Charges	55,075	55,075	55,075	0
Total Expenditures	<u>57,658,937</u>	<u>57,786,420</u>	<u>56,737,894</u>	<u>1,048,526</u>
Excess (Deficiency) of Revenues				
Over (Under) Expenditures	1,771,677	1,663,854	1,886,051	222,197

MARION CITY SCHOOL DISTRICT, OHIO

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
Other Financing Sources (Uses):				
Transfers Out	(850,000)	(1,971,950)	(825,000)	1,146,950
Advances In	569,386	569,386	569,384	(2)
Advances Out	(383,024)	(383,024)	(383,024)	0
Total Other Financing Sources (Uses):	<u>(663,638)</u>	<u>(1,785,588)</u>	<u>(638,640)</u>	<u>1,146,948</u>
 Net Change in Fund Balance	 1,108,039	 (121,734)	 1,247,411	 1,369,145
 Fund Balance at Beginning of Year	 10,149,303	 10,149,303	 10,149,303	 0
Prior Year Encumbrances	85,853	85,853	85,853	0
Fund Balance at End of Year	<u>\$ 11,343,195</u>	<u>\$ 10,113,422</u>	<u>\$ 11,482,567</u>	<u>\$ 1,369,145</u>

See accompanying notes to the basic financial statements

MARION CITY SCHOOL DISTRICT, OHIO

**Statement of Fund Net Position – Modified Cash Basis
Proprietary Fund
June 30, 2018**

	Business-Type Activities			Governmental Activities - Internal Service Fund
	Enterprise Funds			
	Food Service	Other Enterprise	Total	
Assets:				
<i>Current Assets:</i>				
Pooled Cash and Investments	\$ 953,465	\$ 56,471	\$ 1,009,936	\$ 2,463,648
Total Assets	953,465	56,471	1,009,936	2,463,648
Net Position:				
Unrestricted	953,465	56,471	1,009,936	2,463,648
Total Net Position	\$ 953,465	\$ 56,471	\$ 1,009,936	\$ 2,463,648
Adjustment to reflect the consolidation of internal service fund activities related to the enterprise funds.			49,400	
Net Position of Business-type Activities			\$ 1,059,336	

See accompanying notes to the basic financial statements

MARION CITY SCHOOL DISTRICT, OHIO

Statement of Receipts, Disbursements and Changes in Fund Net Position
– Modified Cash Basis
Proprietary Fund
For the Fiscal Year Ended June 30, 2018

	Business-Type Activities			Governmental Activities - Internal Service Fund
	Enterprise Funds			
	Food Service	Other Enterprise	Total	
Operating Receipts:				
Sales	\$ 110,137	\$ 0	\$ 110,137	\$ 0
Interfund Charges	0	0	0	7,719,485
Other Operating Revenues	1,355	400	1,755	0
Total Operating Receipts	111,492	400	111,892	7,719,485
Operating Disbursements:				
Salaries and Wages	1,007,403	0	1,007,403	0
Fringe Benefits	421,024	0	421,024	0
Contractual Services	179,233	0	179,233	7,748,320
Supplies and Materials	1,724,455	380	1,724,835	0
Total Operating Disbursements	3,332,115	380	3,332,495	7,748,320
Operating Income (Loss)	(3,220,623)	20	(3,220,603)	(28,835)
Nonoperating Receipts (Disbursements):				
Federal Donated Commodities	206,305	0	206,305	0
Operating Grants	3,102,882	0	3,102,882	0
Capital Outlay	(15,670)	0	(15,670)	0
Total Nonoperating Receipts (Disbursements)	3,293,517	0	3,293,517	0
Income Before Advances	72,894	20	72,914	(28,835)
Advances:				
Advances In	125,061	0	125,061	0
Advances Out	(145,667)	0	(145,667)	0
Total Advances	(20,606)	0	(20,606)	0
Change in Net Position	52,288	20	52,308	(28,835)
Net Position Beginning of Year	901,177	56,451	957,628	2,492,483
Net Position End of Year	<u>\$ 953,465</u>	<u>\$ 56,471</u>	<u>\$ 1,009,936</u>	<u>\$ 2,463,648</u>
Change in Net Position - Total Enterprise Funds			\$ 52,308	
Adjustment to reflect the consolidation of internal service fund activities related to the enterprise funds.			(914)	
Change in Net Position - Business-type Activities			<u>\$ 51,394</u>	

See accompanying notes to the basic financial statements

MARION CITY SCHOOL DISTRICT, OHIO

**Statement of Net Position – Modified Cash Basis
Fiduciary Funds
June 30, 2018**

	Private Purpose	
	<u>Trust</u>	<u>Agency</u>
Assets:		
Cash and Cash Equivalents	\$ 105,808	\$ 26,236
	<u> </u>	<u> </u>
Liabilities:		
Due to Students	0	26,236
	<u> </u>	<u> </u>
Net Position:		
Held in Trust for Scholarships	6,835	
Endowments	98,973	
	<u> </u>	
Total Net Position	<u>\$ 105,808</u>	

See accompanying notes to the basic financial statements

MARION CITY SCHOOL DISTRICT, OHIO

**Statement of Changes in Net Position – Modified Cash Basis
Fiduciary Fund
For the Fiscal Year Ended June 30, 2018**

	Private Purpose Trust
Additions:	
Contributions:	
Private Donations	\$ 0
Total Contributions	<u>0</u>
Investment Earnings:	
Interest	<u>1,639</u>
Total Investment Earnings	<u>1,639</u>
Total Additions	<u>1,639</u>
Deductions:	
Total Deductions	<u>2,000</u>
Change in Net Position	(361)
Net Position at Beginning of Year	<u>106,169</u>
Net Position End of Year	<u>\$ 105,808</u>

See accompanying notes to the basic financial statements

MARION CITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Marion City School District, Ohio (the District) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio.

The District is governed by a locally elected five member Board of Education (the Board) which provides educational services. The Board controls the District's instructional support facilities staffed by approximately 268 noncertified and approximately 433 certified teaching personnel and administrative employees providing education to 4,288 students.

The accompanying basic financial statements comply with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 14, "*The Financial Reporting Entity*," and Statement No. 39, "*Determining Whether Certain Organizations are Component Units*," and GASB Statement No. 61, "*The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34*" in that the financial statements include all organizations, activities, functions and component units for which the District (the reporting entity) is financially accountable. Financial accountability is defined as the appointment of a voting majority of a legally separate organization's governing board and either the District's ability to impose its will over the organization or the possibility that the organization will provide a financial benefit to, or impose a financial burden on the District. Additionally, the primary government is required to consider other organizations for which the primary government is not financially accountable to determine whether the relationship is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Based on the foregoing, the District's reporting entity has no component units and includes the following services: instructional (regular, special education, vocational), student guidance, extracurricular activities, food service, pupil transportation and care and upkeep of grounds and buildings.

MARION CITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Reporting Entity (Continued)

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

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

The District participates in two jointly governed organizations, one insurance pool, and a related organization. These organizations are the Metropolitan Educational Technology Association (META), Tri-Rivers Joint Vocational School, Ohio Association of School Business Officials Workers' Compensation Group Rating Plan, and the Marion Public Library. These organizations are presented in Notes 14, 12, and 15 respectively, to the basic financial statements.

The accounting policies and financial reporting practices of the District conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of its significant accounting policies.

B. Basis of Presentation - Fund Accounting

The accounting system is organized and operated on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts. The various funds are summarized by type in the basic financial statements.

The following fund types are used by the District:

Governmental Funds - The District classifies funds financed primarily from taxes, intergovernmental receipts (e.g. grants), and other nonexchange transactions as governmental funds. The following is the District's major governmental fund:

MARION CITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation - Fund Accounting (Continued)

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

The other governmental funds of the District account for grants and other resources whose use is restricted to a particular purpose.

Proprietary Funds - The District classifies funds financed primarily from user charges for goods or services as proprietary. Proprietary funds are classified as either enterprise funds or internal service funds.

Enterprise Funds - These funds are used to account for operations that are financed and operated in a manner similar to private business enterprises in which the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The District's major enterprise fund is:

Food Service Fund - This fund accounts for the financial transactions related to the food service operations of the District.

The other enterprise funds of the School District account for uniform school supplies and activities related to reading recovery support.

Internal Service Fund - The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the District on a cost reimbursement basis. The District's internal service fund accounts for the activities of the self-insurance program for employee prescription drug, dental, and health care benefits.

Fiduciary Funds - Fiduciary fund reporting focuses on Net Position and changes in Net Position. The fiduciary category is split into two classifications: private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations or other governments and therefore not available to support the District's own programs. The District's only trust fund is a private purpose trust that accounts for scholarship programs, gifts and awards for specific students. State law permits the District to appropriate for purposes consistent with the endowment's intent, net appreciation, both realized and unrealized. The agency funds account for various student managed activities and payroll withholdings and deductions, are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operation.

MARION CITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Presentation – Financial Statements

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

Government-wide Financial Statements – The Statement of Net Position and the Statement of Activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Internal service fund activity is eliminated to avoid “doubling up” receipts and disbursements. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

The government-wide statement of net position presents the cash balance of the governmental activities of the District at fiscal year end. The statement of activities compares disbursements with program receipts for each function or program of the District's governmental activities. Disbursements are reported by function. A function is a group of related activities designed to accomplish a major service or regulatory program for which the government is responsible. Program receipts include charges paid by the recipient of the program's goods or services, grants and contributions restricted to meeting the operational or capital requirements of a particular program, and receipts of interest earned on grants that are required to be used to support a particular program. General receipts are all receipts not classified as program receipts, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function is self-financing on a cash basis or draws from the District's general receipts.

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

MARION CITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Accounting

The District's financial statements are prepared using the modified cash basis of accounting. Receipts are recorded in the District's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred.

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

E. Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources and the appropriation resolution, all of which are prepared on the basis of budgeting. The certificate of estimated resources and the appropriation resolution are subject to amendment throughout the year.

All funds other than agency funds are legally required to be budgeted and appropriated; however, only the General Fund is required to be reported. The primary level of budgetary control is at the fund level. Supplemental budgetary modifications may only be made by resolution of the Board of Education.

1. Tax Budget

By January 15, the Superintendent and Treasurer submit an annual operating budget for the following fiscal year to the Board of Education for consideration and passage. The adopted budget is submitted to the County Auditor, as Secretary of the County Budget Commission, by January 20 of each year for the period July 1 to June 30 of the following fiscal year.

MARION CITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process (Continued)

2. Estimated Resources

Prior to March 15, the Board accepts by formal resolution, the tax rates as determined by the County Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that the total contemplated disbursements from any fund during the ensuing fiscal year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations measure. On or about July 1, the certificate of estimated resources is amended to include any unencumbered fund balances from the preceding year. The certificate may be further amended during the year if a new source of revenue is identified or actual receipts exceed current estimates. The amounts reported on the budgetary statement reflect the amounts in the final amended official certificate of estimated resources issued during fiscal year 2018.

3. Appropriations

A temporary appropriation measure to control disbursements may be passed on or about July 1 of each year for the period July 1 through September 30. An annual appropriation resolution must be passed by October 1 of each year for the period July 1 through June 30. The appropriation resolution establishes spending controls at the fund level. The appropriation resolution may be amended during the year as additional information becomes available, provided that total fund appropriations do not exceed the current estimated resources as certified. The allocation of appropriations among departments and objects within a fund may be modified during the year with approval of the Board. During the year, several supplemental appropriations were necessary to budget the use of contingency funds. Administrative control is maintained through the establishment of more detailed line-item budgets. The budgetary figures which appear in the "Statement of Receipts, Disbursements, and Changes in Fund Balances-Budget and Actual" are provided on the budgetary basis to provide a comparison of actual results to the final budget, including all amendments and modifications.

4. Lapsing of Appropriations

At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the subsequent fiscal year and need not be reappropriated.

MARION CITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process (Continued)

5. Basis of Budgeting

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

Net Change in Fund Balance	
	General Fund
Cash Basis (as reported)	\$1,276,664
Perspective Difference-	
Budgeted Special Revenue Funds reclassified as General Fund	(3,333)
Encumbrances Outstanding	(25,920)
Budget Basis	<u>\$1,247,411</u>

F. Cash and Cash Equivalents

To improve cash management, cash received by the School District is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through School District records. Interest in the pool is presented as “Pooled Cash and Investments”. See Note 4, “Cash, Cash Equivalents and Investments.”

During fiscal year 2018, the School District invested in nonnegotiable certificates of deposit, federal agency securities, and STAR Ohio. Investment procedures and interest allocations are restricted by provisions of the Ohio Constitution and the Ohio Revised Code. In accordance with GASB Statement No. 31, “*Accounting and Financial Reporting for Certain Investments and for External Investment Pools*”, the District reports its investments at fair value, except for nonparticipating investment contracts (certificates of deposit) which are reported at cost. All investment income, including changes in the fair value of investments, are recognized as revenue in the operating statements. Fair value is determined by quoted market prices.

MARION CITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Cash and Cash Equivalents (Continued)

The School District's investment in the State Treasury Asset Reserve of Ohio (STAR Ohio) is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company and is recognized as an external investment pool by the School District. The School District measures their investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides a NAV per share that approximates fair value.

For the fiscal year 2018, there were no limitation or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$100 million, requiring the excess amount to be transacted the following business day(s), but only to the \$100 million limit. All accounts of the participant will be combined for these purposes.

The School District allocates interest earnings according to State statutes. Interest revenue credited to the General Fund during fiscal year 2018 was \$134,297, which includes \$50,338 assigned from other School District funds.

G. Inventory and Prepaid Items

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

H. Capital Assets

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets in the accompanying financial statements.

I. Long-Term Obligations

The District's modified cash basis financial statements do not report liabilities for bonds and other long-term obligations. Proceeds of debt are reported when cash is received and principal and interest payments are reported when paid.

J. Accumulated Leave

In certain circumstances, such as upon leaving employment or retirement, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the District's modified cash basis of accounting.

MARION CITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Net Position

Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The District applies restricted resources when a cash disbursement is incurred for purposes for which both restricted and unrestricted net position are available.

L. Fund Balance

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

Nonspendable - The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

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

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

Assigned - Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the District Board of Education or approved by the Treasurer, or by State statute. The Board may also assign fund balances as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year’s appropriated budget.

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

MARION CITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Fund Balance (Continued)

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

M. Employer Contributions to Cost-Sharing Pension Plans

The District recognizes the disbursements for employer contributions to cost-sharing pension plans when they are paid. The employer contributions include portions for pension benefits and for postretirement health care benefits.

N. Pension Plans/Other Postemployment Benefits (OPEB)

For purposes of measuring the net pension/OPEB liability, information about the fiduciary net position of the pension/OPEB plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension/OPEB plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension/OPEB plans report investments at fair value.

O. Interfund Receivables/Payable

The District reports advances-in and advances-out for interfund loans. These items are not reflected as assets and liabilities in the accompanying financial statements.

P. Interfund Transactions

Exchange transactions between funds are reported as receipts in the seller funds and as disbursements in the purchaser funds. Subsidies 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. Interfund transfers between governmental funds are eliminated on the Statement of Activities. Repayments from funds responsible for particular cash disbursements to the funds that initially paid for them are not presented on the financial statements.

Q. Operating Receipts and Disbursements

Proprietary fund statements distinguish operating transactions from nonoperating transactions. Operating receipts generally result from exchange transactions such as charges for services directly relating to the fund's principal services. Operating disbursements include costs of sales and services and administrative costs. The fund statements report all other receipts and disbursements as nonoperating.

MARION CITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2018

NOTE 2 - COMPLIANCE

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

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MARION CITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

NOTE 3 – FUND BALANCES

Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the District is bound to observe constraints imposed upon the use of resources in the government funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

<u>Fund Balances</u>	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Nonspendable:			
Endowments	\$0	\$2,821	\$2,821
Restricted:			
School Facilities Maintenance	0	1,288,292	1,288,292
Extracurricular Activities	0	161,887	161,887
Technology Improvements	0	1,890	1,890
Auxiliary Services	0	20,575	20,575
Targeted Academic Assistance	0	213,440	213,440
Debt Service Payments	0	943,449	943,449
Capital Acquisition and Improvement	0	573,357	573,357
Total Restricted	<u>0</u>	<u>3,202,890</u>	<u>3,202,890</u>
Assigned to Other Purposes	2,480,457	0	2,480,457
Unassigned	9,102,885	0	9,102,885
Total Fund Balances	<u><u>\$11,583,342</u></u>	<u><u>\$3,205,711</u></u>	<u><u>\$14,789,053</u></u>

MARION CITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2018

NOTE 4 – CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash resources of several individual funds are combined to form a pool of cash, cash equivalents and investments.

Statutes require the classification of funds held by the District into three categories. Category 1 consists of “active” funds - those funds required to be kept in a “cash” or “near cash” status for immediate use by the District. Such funds must be maintained either as cash in the District Treasury or in depository accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts.

Category 2 consists of “inactive” funds - those funds not required for use within the current five year period of designation of depositories. Inactive funds may be deposited or invested only as certificates of deposit maturing not later than the end of the current period of designation of depositories.

Category 3 consists of “interim” funds - those funds which are not needed for immediate use but, which will be needed before the end of the current period of designation of depositories. Interim funds may be invested or deposited in the following securities:

- United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal or interest by the United States;
- Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
- Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
- Interim deposits in eligible institutions applying for interim funds;
- Bonds and other obligations of the State of Ohio;
- No-load money market mutual funds consisting exclusively of obligations described in the first two bullets 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, and
- The State Treasury Asset Reserve of Ohio (STAR Ohio).
- Commercial paper notes, limited to 40% (5% for a single issuer) in total of the interim monies available for investment at any one time and for a period not to exceed two hundred seventy days; and,
- Bankers acceptances, limited to 40% of the interim monies available for investment at any one time and for a period not to exceed one hundred eighty days.

MARION CITY SCHOOL DISTRICT, OHIO

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018**

NOTE 4 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

A. Deposits

Custodial credit risk is the risk that in the event of bank failure, the government's deposits may not be returned. Protection of District cash and deposits is provided by the federal deposit insurance corporation as well as qualified securities pledged by the institution holding the assets.

Ohio law requires that deposits be either insured or be protected by eligible securities pledged to the District and deposited with a qualified trustee by the financial institution as security for repayment whose market value at all times shall be at least 105 percent of the deposits being secured, or participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution. OPCS requires the total market value of the securities pledged to be 102 percent of the deposits being secured or a rate set by the Treasurer of State.

At fiscal year end the carrying amount of the District's deposits was \$15,673,882 and the bank balance was \$16,689,336. Federal depository insurance covered \$1,789,021 of the bank balance and \$14,900,315 was collateralized with securities held by the pledging financial institutions trust department or agent but not in the District's name and securities held in the Ohio Pooled Collateral System.

B. Investments

The District's investments at June 30, 2018 were as follows:

	Cost	Credit Rating	Investment Maturities (in Years)		
			less than 1	1-3	3-5
STAR Ohio	\$29,507	AAA ¹	\$29,507	\$0	\$0
FNMA	1,000,167	Aaa ²	1,000,167	0	0
FHLB	700,000	Aaa ²	0	700,000	0
Commercial Paper	991,125	P-1 ²	991,125	0	0
Total Investments	<u>\$2,720,799</u>		<u>\$2,020,799</u>	<u>\$700,000</u>	<u>\$0</u>

¹ Standard & Poor's

² Moody's Investor Service

MARION CITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2018

NOTE 4 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

B. Investments (Continued)

Interest Rate Risk – The Ohio Revised Code generally limits security purchases to those that mature within five years of settlement date.

Investment Credit Risk – The District has no investment policy that limits its investment choices other than the limitation of State statute for “interim” funds described previously.

Concentration of Credit Risk – The District places no limit on the amount the District may invest in one issuer. The District has invested 58% in FNMA, 40% in FHLB, and 2% in STAR Ohio.

Custodial Credit Risk – The District’s balance of investments are held by the trust department of its banking institution in the District’s name. The District has no policy on custodial credit risk and is governed by Ohio Revised Code as described under Deposits.

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MARION CITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2018

NOTE 5 - PROPERTY TAXES

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

Property taxes include amounts levied against all real estate and public utility property, and tangible personal property used in business and located in the District. Real property taxes (other than public utility) collected during 2018 were levied after April 1, 2017 on assessed values as of January 1, 2017, the lien date. Assessed values are established by the County Auditor at 35 percent of appraised market value. All property is required to be reappraised every six years and equalization adjustments made the third year following reappraisal. The last equalization adjustment was completed in 2014. Real property taxes are payable annually or semi-annually. The first payment is due December 31, with the remainder payable by June 20.

Public utility real and tangible personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year preceding the tax collection year, the lien date. Certain public utility tangible personal property is currently assessed at varying ratios of its true value. Public utility property taxes are payable on the same dates as real property described previously.

The County Treasurer collects property taxes on behalf of all taxing districts in the County including Marion City School District. The County Auditor periodically remits to the District its portion of the taxes collected. The assessed values for collection in 2018 were as follows:

	2017 Second Half Collections	2018 First Half Collections
Agricultural/Residential and Other Real Estate	\$314,111,230	\$314,817,280
Public Utility Personal	39,068,380	41,072,820
Total Assessed Value	<u>\$353,179,610</u>	<u>\$355,890,100</u>
Tax rate per \$1,000 of assessed valuation	\$40.77	\$40.91

MARION CITY SCHOOL DISTRICT, OHIO

***Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018***

NOTE 6 – TAX ABATEMENT DISCLOSURES

As of June 30, 2018, the District is a party to a tax abatement with the City of Marion, Ohio that provides tax incentives under a Community Reinvestment Area Program (CRA).

Real Estate Tax Abatements

Pursuant to Ohio Revised Code Chapter 5709, the City of Marion established a Community Reinvestment area in 2007. The City of Marion authorizes incentives through the passage of public ordinances, based upon each businesses investment criteria, and through a contractual application process with each business, including proof that the improvements have been made. The abatement equals an agreed upon percentage of the additional property tax resulting from the increase in assessed value as a result of the improvements. The amount of the abatement is deducted from the recipient’s property tax bill. The establishment of the CRA gave the City the ability to maintain and expand businesses located in the City and created new jobs by abating or reducing assessed valuation of properties, resulting in abated taxes, from new or improved business real estate for office and industrial uses. The City of Marion also enters into various contracts with the benefitting business and the Marion City School District for payments in lieu of taxes when required by Section 5709.82 of the Ohio Revised Code, as in this case.

Below is the information relevant to the disclosure of those programs for the year ended June 30, 2018.

Tax Abatement	Total Amount of Taxes Received For the Fiscal Year 2018 In Actual Dollars
<i>MCS (2007 - 2017) (CRA)</i> - Gross Dollar amount of taxes received during 2018	\$3,083

The total amount abated by the City on the project mentioned above was \$344,570.

MARION CITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2018

NOTE 7 - INTERFUND ACTIVITY

A. Transfers

Following is a summary of operating transfers in and out for all funds for fiscal year 2018:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$0	\$825,000
Nonmajor Governmental Funds	825,000	0
Total All Funds	<u>825,000</u>	<u>825,000</u>

Transfers are used to (a) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and to (b) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

B. Advances

Following is a summary of advances in and out for all funds at June 30, 2018:

	<u>Advances In</u>	<u>Advances Out</u>
General Fund	\$569,384	\$383,024
Nonmajor Governmental Funds	257,964	423,718
Total Governmental Funds	<u>827,348</u>	<u>806,742</u>
Food Service Fund	125,061	145,667
Totals	<u>952,409</u>	<u>952,409</u>

Advances are used to temporarily provide operating resources to funds with the expectation the resources will be repaid once monies are available in the funds receiving the advance.

NOTE 8- DEFINED BENEFIT PENSION PLANS

All of the District's full-time employees participate in one of two separate retirement systems which are cost-sharing, multiple-employer defined benefit pension plans.

Net Pension Liability - The net pension liability is not reported in the accompanying financial statements. The net pension liability has been disclosed below. Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period.

MARION CITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2018

NOTE 8- DEFINED BENEFIT PENSION PLANS (Continued)

The net pension liability represents the District's proportionate share of each pension plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan's fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

The Ohio Revised Code limits the District's obligation for this liability to annually required payments. The District cannot control benefit terms or the manner in which pensions are financed; however, the District does receive the benefit of employees' services in exchange for compensation including pension.

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's share of contributions to the pension plan relative to the projected contributions of all participating entities. Following is information related to the proportionate share:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportionate Share of the Net Pension Liability	\$12,146,535	\$54,325,462	\$66,471,997
Proportion of the Net Pension Liability -2018	0.2032968%	0.2286886%	
Proportion of the Net Pension Liability -2017	<u>0.2076660%</u>	<u>0.2184308%</u>	
Percentage Change	<u>(0.0043692%)</u>	<u>0.0102578%</u>	

A. School Employee Retirement System

Plan Description – School District non-teaching employees participate in SERS, a cost-sharing multiple-employer defined benefit pension plan administered by SERS. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements, required supplementary information and detailed information about SERS' fiduciary net position. That report can be obtained by visiting the SERS website at www.ohsers.org under Employers/Audit Resources.

MARION CITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2018

NOTE 8- DEFINED BENEFIT PENSION PLANS (Continued)

A. School Employee Retirement System (Continued)

Age and service requirements for retirement are as follows:

	Eligible to Retire on or before August 1, 2017 *	Eligible to Retire on or after August 1, 2017
Full Benefits	Any age with 30 years of service credit Age 65 with 5 years of service credit	Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit
Actuarially Reduced Benefits	Age 60 with 5 years of service credit Age 55 with 25 years of service credit	Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit

* Members with 25 years of service credit as of August 1, 2017, will be included in this plan.

Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on year of service; 2.2 percent for the first thirty years of service and 2.5 percent for years of service credit over 30. Final average salary is the average of the highest three years of salary.

Effective January 1, 2018, cost-of-living adjustment (COLA) will change from a fixed 3% annual increase to one based on the Consumer Price Index (CPI-W), with a cap of 2.5% and a floor of 0%. HB 49 also provided the SERS Retirement Board with the authority to award or suspend the COLA, or to adjust the COLA above or below CPI-W; however, any adjustment above or below CPI-W could only be enacted if the system's actuary determines it would not materially impair the fiscal integrity of the system, or is necessary to preserve the fiscal integrity of the system.

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2018, the allocation to pension, death benefits, and Medicare B was 14.00 percent. None of the 14 percent employer contribution rate was allocated to the Health Care Fund.

The District's contractually required contribution to SERS was \$923,352 for fiscal year 2018.

Actuarial Assumptions - SERS' total pension liability was determined by their actuaries in accordance with GASB Statement No. 67, as part of their annual actuarial valuation for each defined benefit retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment termination). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

MARION CITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2018

NOTE 8- DEFINED BENEFIT PENSION PLANS (Continued)

A. School Employee Retirement System (Continued)

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee's entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2017, are presented below:

Wage Inflation	3.00 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent
COLA or Ad Hoc COLA	2.5 percent
Investment Rate of Return	7.50 percent net of investment expense, including inflation
Actuarial Cost Method	Entry Age Normal

For post-retirement mortality, the table used in evaluating allowances to be paid is the RP-2014 Blue Collar Mortality Table set back five years for both men and women. Special mortality tables are used for the period after disability retirement.

The most recent experience study was completed June 30, 2015.

The long-term return expectation for the Pension Plan Investments has been determined using a building-block approach and assumes a time horizon, as defined in SERS' *Statement of Investment Policy*. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes. The target allocation and best estimates of arithmetic real rates of return for each major assets class are summarized in the following table:

MARION CITY SCHOOL DISTRICT, OHIO

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018**

NOTE 8- DEFINED BENEFIT PENSION PLANS (Continued)

A. School Employee Retirement System (Continued)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
Cash	1.00 %	0.50 %
US Stocks	22.50	4.75
Non-US Stocks	22.50	7.00
Fixed Income	19.00	1.50
Private Equity	10.00	8.00
Real Assets	15.00	5.00
Multi-Asset Strategies	10.00	3.00
Total	<u>100.00 %</u>	

Discount Rate - The total pension liability was calculated using the discount rate of 7.50 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.50 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.50 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50 percent), or one percentage point higher (8.50 percent) than the current rate.

	<u>1% Decrease (6.50%)</u>	<u>Current Discount Rate (7.50%)</u>	<u>1% Increase (8.50%)</u>
School District's proportionate share of the net pension liability	\$16,856,234	\$12,146,535	\$8,201,201

MARION CITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2018

NOTE 8- DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System

Plan Description –District licensed teachers and other faculty members participate in STRS Ohio, a cost-sharing multiple-employer public employee retirement system administered by STRS. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about STRS' fiduciary net position. That report can be obtained by writing to STRS, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Web site at www.strsoh.org.

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. Effective July 1, 2017, cost-of-living adjustment (COLA) was reduced to 0%. Members are eligible to retire at age 60 with five year of qualifying service credit, or age 55 with 26 years of service, or 31 years of service regardless of age. Age and service requirements for retirement will increase effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five year of service on August 1, 2026.

The DC Plan allows members to place all their member contributions and 9.5 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. 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.

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, 12% of the 14% member rate goes to the DC Plan and the remaining 2% is applied to the DB Plan. Member contributions to the DC Plan are allocated among investment choices by the member, and contributions to the DB Plan from the employer and the member are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of service. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity after termination of employment at age 50 or later.

MARION CITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2018

NOTE 8- DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System (Continued)

New members who choose the DC plan or Combined Plan will have another opportunity to reselect a permanent plan during their fifth year of membership. Members may remain in the same plan or transfer to another STRS plan. The optional annuitization of a member's defined contribution account or the defined contribution portion of a member's Combined Plan account to a lifetime benefit results in STRS bearing the risk of investment gain or loss on the account. STRS has therefore included all three plan options as one defined benefit plan for GASB 68 reporting purposes.

A DB or Combined Plan member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least ten years of qualifying service credit that apply for disability benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For the fiscal year ended June 30, 2017, the employer rate was 14% and the member rate was 14% of covered payroll.

The District's contractually required contribution to STRS was \$3,799,752 for fiscal year 2018.

Actuarial Assumptions - The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50 percent
Projected salary increases	2.50 percent at age 65 to 12.50 percent at age 20
Investment Rate of Return	7.45 percent, net of investment expenses, including inflation
Cost-of-Living Adjustments (COLA)	0% effective July 1, 2017

MARION CITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2018

NOTE 8- DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System (Continued)

Mortality rates were based on the RP-2014 Annuitant Mortality Table with 50% of rates through age 69, 70% of rates between ages 70 and 79, 90% of rates between ages 80 and 84, and 100% of rates thereafter, projected forward generationally using mortality improvement scale MP-2016.

Actuarial assumptions used in the July 1, 2017 valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

The 10 year expected real rate of return on pension plan investments was determined by STRS' investment consultant by developing best estimates of expected future real rates of return for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Rate of Return</u>
Domestic Equity	28.00 %	7.35 %
International Equity	23.00	7.55
Alternatives	17.00	7.09
Fixed Income	21.00	3.00
Real Estate	10.00	6.00
Liquidity Reserves	1.00	2.25
Total	<u>100.00 %</u>	

Discount Rate - The discount rate used to measure the total pension liability was 7.45 percent as of June 30, 2017. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2017. Therefore, the long-term expected rate of return on pension plan investments of 7.45 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2017.

MARION CITY SCHOOL DISTRICT, OHIO

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018**

NOTE 8- DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System (Continued)

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following table presents the District's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.45 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.45 percent) or one-percentage-point higher (8.45 percent) than the current rate:

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
District's proportionate share of the net pension liability	\$77,873,701	\$54,325,462	\$34,489,601

NOTE 9- DEFINED BENEFIT OPEB PLANS

All of the District's full-time employees participate in one of two separate retirement systems which are cost-sharing, multiple-employer defined benefit pension plans. Ohio law authorizes each pension plan to offer postemployment benefits other than pension (OPEB) through a cost-sharing, multiple employer health care plan.

Net Other Postemployment Benefits (OPEB) Liability - The net OPEB liability is not reported in the accompanying financial statements. The net OPEB liability has been disclosed below. OPEB are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. OPEB are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period.

The net OPEB liability represents the District's proportionate share of each plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each plan's fiduciary net position. The net OPEB liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

The Ohio Revised Code limits the District's obligation for this liability to annually required payments. The District cannot control benefit terms or the manner in which OPEB are financed; however, the District does receive the benefit of employees' services in exchange for compensation including OPEB.

MARION CITY SCHOOL DISTRICT, OHIO

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018**

NOTE 9- DEFINED BENEFIT OPEB PLANS (Continued)

GASB 75 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers. State statute requires the OPEB plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each OPEB plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net OPEB liability. Resulting adjustments to the net OPEB liability would be effective when the changes are legally enforceable.

The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The District's proportion of the net OPEB liability was based on the District's share of contributions to the pension and OPEB plans relative to the projected contributions of all participating entities. Following is information related to the proportionate share:

	SERS	STRS	Total
Proportionate Share of the Net OPEB Liability	\$5,524,935	\$8,922,585	\$14,447,520
Proportion of the Net OPEB Liability -2018	0.2058670%	0.2286886%	
Proportion of the Net OPEB Liability -2017	0.2152240%	0.2184308%	
Percentage Change	(0.0093570%)	0.0102578%	

A. School Employee Retirement System

Plan Description – The District contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 75 purposes, this plan is considered a cost-sharing other postemployment benefit (OPEB) plan. SERS' Health Care Plan provides healthcare benefits to eligible individuals receiving retirement, disability, and survivor benefits, and to their eligible dependents. Members who retire after June 1, 1986, need 10 years of service credit, exclusive of most types of purchased credit, to qualify to participate in SERS' health care coverage. In addition to age and service retirees, disability benefit recipients and beneficiaries who are receiving monthly benefits due to the death of a member or retiree, are eligible for SERS' health care coverage. Most retirees and dependents choosing SERS' health care coverage are over the age of 65 and therefore enrolled in a fully insured Medicare Advantage plan; however, SERS maintains a traditional, self-insured preferred provider organization for its non-Medicare retiree population. For both groups, SERS offers a self-insured prescription drug program. Health care is a benefit that is permitted, not mandated, by statute. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

Age and service requirements for retirement are as follows:

MARION CITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2018

NOTE 9- DEFINED BENEFIT OPEB PLANS (Continued)

	Eligible to Retire on or before August 1, 2017 *	Eligible to Retire on or after August 1, 2017
Full Benefits	Any age with 30 years of service credit Age 65 with 5 years of service credit	Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit
Actuarially Reduced Benefits	Age 60 with 5 years of service credit Age 55 with 25 years of service credit	Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit

* Members with 25 years of service credit as of August 1, 2017, will be included in this plan.

A. School Employee Retirement System (Continued)

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Health care is financed through a combination of employer contributions and retiree premiums, copays and deductibles on covered health care expenses, investment returns, and any funds received as a result of SERS' participation in Medicare programs. Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

Funding Policy – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2018, 0.5% of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount (\$23,700 for 2018), pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge. Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

The surcharge, added to the allocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The School District's contractually required contribution to SERS was \$143,181 for fiscal year 2018.

Actuarial Assumptions - SERS' total OPEB liability was determined by their actuaries in accordance with GASB Statement No. 74, as part of their annual actuarial valuation for each defined benefit retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment termination). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

MARION CITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2018

NOTE 9- DEFINED BENEFIT OPEB PLANS (Continued)

A. School Employee Retirement System (Continued)

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee's entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

Key methods and assumptions used in calculating the total OPEB liability in the latest actuarial valuation, prepared as of June 30, 2017, are presented below:

Wage Inflation	3.00 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent
COLA or Ad Hoc COLA	2.5 percent
Investment Rate of Return	7.50 percent net of investment expense, including inflation
Municipal Bond Index Rate:	
Measurement Date	3.56 percent
Prior Measurement Date	2.92 percent
Blended Discount Rate of Return:	
Measurement Date	3.63 percent
Prior Measurement Date	2.98 percent
Actuarial Cost Method	Entry Age Normal
Medical Trend Assumption	
Medicare	5.50 to 5.00 percent
Pre-Medicare	7.50 to 5.00 percent

The most recent experience study was completed June 30, 2015.

The long-term expected rate of return on plan assets is reviewed as part of the actuarial five-year experience study. The most recent study covers fiscal year 2010 through 2015, and was adopted by the Board on April 21, 2016. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return, 7.50 percent, by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years. The target allocation and best estimates of arithmetic real rates of return for each major assets class are summarized in the following table:

MARION CITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

NOTE 9 - DEFINED BENEFIT OPEB PLANS (Continued)

A. School Employee Retirement System (Continued)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
Cash	1.00 %	0.50 %
US Stocks	22.50	4.75
Non-US Stocks	22.50	7.00
Fixed Income	19.00	1.50
Private Equity	10.00	8.00
Real Assets	15.00	5.00
Multi-Asset Strategies	10.00	3.00
Total	100.00 %	

For post-retirement mortality, the table used in evaluating allowances to be paid is the RP-2014 Blue Collar Mortality Table set back five years for both men and women. Special mortality tables are used for the period after disability retirement.

Discount Rate - The discount rate used to measure the total OPEB liability at June 30, 2017 was 3.63%. The discount rate used to measure total OPEB liability prior to June 30, 2017 was 2.98%. The projection of cash flows used to determine the discount rate assumed that contributions will be made from members and the System at the state statute contribution rate of 2.00% of projected covered employee payroll each year, which includes a 1.50% payroll surcharge and 0.50% of contributions from the basic benefits plan. Based on these assumptions, the OPEB plan's fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2025. Therefore, the long-term expected rate of return on OPEB plan assets was used to present value the projected benefit payments through the fiscal year ending June 30, 2024 and the Fidelity General Obligation 20-year Municipal Bond Index rate of 3.56%, as of June 30, 2017 (i.e. municipal bond rate), was used to present value the projected benefit payments for the remaining years in the projection. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The projection of future benefit payments for all current plan members was until the benefit payments ran out.

Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Discount and Health Care Cost Trend Rates – The net OPEB liability is sensitive to changes in the discount and health care cost trend rates. To illustrate the potential impact the following table presents the net OPEB liability calculated using the discount rate of 3.63 percent, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.63 percent), or one percentage point higher (4.63 percent) than the current rate. Also shown is the net OPEB liability calculated using a health care cost trend rate this is one percentage point lower and one percentage point higher.

	1% Decrease (2.63%)	Current Discount Rate (3.63%)	1% Increase (4.63%)
School District's proportionate share of the net OPEB liability	\$6,672,062	\$5,524,935	\$4,616,117

MARION CITY SCHOOL DISTRICT, OHIO

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018**

NOTE 9 - DEFINED BENEFIT OPEB PLANS (Continued)

A. School Employee Retirement System (Continued)

	1% Decrease (6.5% Decreasing to 4.0%)	Current Trend Rate (7.5% Decreasing to 5.0%)	1% Increase (8.5% Decreasing to 6.0%)
School District's proportionate share of the net OPEB liability	\$4,483,071	\$5,524,935	\$6,903,860

B. State Teachers Retirement System

Plan Description – The District contributes to the cost sharing multiple employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians’ fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2018, STRS Ohio allocated employer contributions equal to zero percent of covered payroll to the Health Care Stabilization Fund.

The District’s contractually required contribution to STRS was \$0 for fiscal year 2018.

Actuarial Assumptions - The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50 percent
Projected salary increases	2.50 percent at age 65 to 12.50 percent at age 20
Investment Rate of Return	7.45 percent, net of investment expenses, including inflation
Municipal Bond Index Rate	3.58 percent
Blended Discount Rate of Return	4.13 percent
Cost-of-Living Adjustments (COLA)	0% effective July 1, 2017
Payroll Increases	3.00 percent

MARION CITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2018

NOTE 9 - DEFINED BENEFIT OPEB PLANS (Continued)

B. State Teachers Retirement System (Continued)

Mortality rates were based on the RP-2014 Annuitant Mortality Table with 50% of rates through age 69, 70% of rates between ages 70 and 79, 90% of rates between ages 80 and 84, and 100% of rates thereafter, projected forward generationally using mortality improvement scale MP-2016.

Actuarial assumptions used in the July 1, 2017 valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

The 10 year expected real rate of return on pension plan investments was determined by STRS' investment consultant by developing best estimates of expected future real rates of return for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Rate of Return</u>
Domestic Equity	28.00 %	7.35 %
International Equity	23.00	7.55
Alternatives	17.00	7.09
Fixed Income	21.00	3.00
Real Estate	10.00	6.00
Liquidity Reserves	1.00	2.25
Total	<u>100.00 %</u>	

Discount Rate - The discount rate used to measure the total OPEB liability was 4.13% as of June 30, 2017. The projection of cash flows used to determine the discount rate assumes STRS Ohio continues to allocate no employer contributions to the health care fund. Based on these assumptions, the OPEB plan's fiduciary net position was not projected to be sufficient to make all projected future benefit payments of current plan members. The OPEB plan's fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2037. Therefore, the long-term expected rate of return on OPEB plan assets was used to determine the present value of the projected benefit payments through the fiscal year ending June 30, 2036 and the Bond Buyer 20-year municipal bond rate of 3.58 percent as of June 30, 2017 (i.e. municipal bond rate), was used to determine the present value of the projected benefit payments for the remaining years in the projection. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The blended discount rate of 4.13 percent, which represents the long-term expected rate of return of 7.45 percent for the funded benefit payments and the Bond Buyer 20-year municipal bond rate of 3.58 percent for the unfunded benefit payments, was used to measure the total OPEB liability as of June 30, 2017. A blended discount rate of 3.26 percent which represents the long term expected rate of return of 7.75 percent for the funded benefit payments and the Bond Buyer 20-year municipal bond rate of 2.85 percent for the unfunded benefit payments was used to measure the total OPEB liability at June 30, 2016.

MARION CITY SCHOOL DISTRICT, OHIO

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018*

NOTE 9 - DEFINED BENEFIT OPEB PLANS (Continued)

B. State Teachers Retirement System (Continued)

Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Discount and Health Care Cost Trend Rates – The net OPEB liability is sensitive to changes in the discount and health care cost trend rates. To illustrate the potential impact the following table presents the net OPEB liability calculated using the discount rate of 4.13 percent, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (3.13 percent), or one percentage point higher (5.13 percent) than the current rate. Also shown is the net OPEB liability calculated using a health care cost trend rate this is one percentage point lower and one percentage point higher.

	1% Decrease █ (3.13%)	Current █ Discount Rate (4.13%)	1% Increase █ (5.13%)
School District's proportionate share of the net OPEB liability	\$11,978,427	\$8,922,585	\$6,507,471
	1% Decrease █ in Trend Rate	Current █ Trend Rate	1% Increase █ in Trend Rate
School District's proportionate share of the net OPEB liability	\$6,199,029	\$8,922,585	\$12,507,102

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MARION CITY SCHOOL DISTRICT, OHIO

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018**

NOTE 10 - LONG-TERM DEBT OBLIGATIONS

Detail of the changes in long-term debt of the District for the year ended June 30, 2018 is as follows:

	Balance June 30, 2017	Additions	Deductions	Balance June 30, 2018	Amount Due Within One Year
Governmental Activities:					
General Obligation Bond:					
2017 School Facilities Construction Refunding					
Serial Bonds 2.080%	\$6,400,000	\$0	(\$1,045,000)	\$5,355,000	\$1,020,000
General Obligation Notes:					
Energy Conservation 3.00%	1,300,448	0	(115,525)	1,184,923	118,990
Energy Conservation 3.25%	469,490	0	(32,615)	436,875	33,675
Total General Obligation Notes	<u>1,769,938</u>	<u>0</u>	<u>(148,140)</u>	<u>1,621,798</u>	<u>152,665</u>
Capital Leases Payable	<u>39,192</u>	<u>0</u>	<u>(39,192)</u>	<u>0</u>	<u>0</u>
Total Long-Term Debt and Other Obligations	<u><u>\$8,209,130</u></u>	<u><u>\$0</u></u>	<u><u>(\$1,232,332)</u></u>	<u><u>\$6,976,798</u></u>	<u><u>\$1,172,665</u></u>

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MARION CITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements *For the Fiscal Year Ended June 30, 2018*

NOTE 10 - LONG-TERM DEBT AND OTHER OBLIGATIONS (Continued)

2017 School Facilities Construction Refunding Bonds – On March 9, 2017, the School District issued bonds in the amount of \$6,400,000, to refund bonds previously issued in fiscal year 2007 for constructing a new high school and three new elementary school buildings, as well as renovating, remodeling, and improving existing school buildings. The refunded debt had an outstanding balance of \$6,400,000 as of June 30, 2017. The bonds were issued for a six year period, with final maturity in fiscal year 2023. The bonds will be retired through the Bond Retirement debt service fund. The refunding was undertaken for the purpose of reducing interest rates and debt service on the prior bonds.

2012 Energy Conservation Notes – On December 14, 2011, the School District issued notes in the amount of \$1,823,390, to be used to assist the School District in reducing energy costs through energy conservation measures. The notes are to be paid off over a fifteen year period at an interest rate of 3%. The notes are set to mature on December 1, 2026.

2014 Energy Conservation Notes – On September 8, 2013, the School District issued notes in the amount of \$557,735, to be used to assist the School District in reducing energy costs through energy conservation measures. The notes are to be paid off over a fifteen year period at an interest rate of 3.25%. The notes are set to mature on December 1, 2028.

Defeased Debt – On March 9, 2017, the District defeased \$6,400,000 of Capital Improvement Bonds that were used for constructing a new high school and three new elementary school buildings, as well as renovating, remodeling, and improving existing school buildings, (the "2007 Bonds") through the issuance of \$6,400,000 of General Obligation Bonds. The net proceeds of the 2017 Bonds have been invested in obligations guaranteed as to both principal and interest by the United States and placed in irrevocable escrow accounts which, including interest earned, will be used to pay the principal and interest on the refunded bonds. The refunded bonds, which have an outstanding balance of \$5,440,000 at June 30, 2018, are not included in the District's outstanding debt since the District has in-substance satisfied its obligations through the advance refunding.

The District's overall debt margin was \$24,803,620 with an unvoted debt margin of \$355,890 at June 30, 2018.

MARION CITY SCHOOL DISTRICT, OHIO

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018**

NOTE 10 - LONG-TERM DEBT OBLIGATIONS (Continued)

A. Principal and Interest Requirements

A summary of the District's future long-term debt funding requirements, including principal and interest payments as of June 30, 2018 follows:

General Obligation Bonds

<u>Years</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$1,020,000	\$111,384	\$1,131,384
2020	1,045,000	90,168	1,135,168
2021	1,075,000	68,432	1,143,432
2022	1,095,000	46,072	1,141,072
2023	1,120,000	23,296	1,143,296
Totals	<u>\$5,355,000</u>	<u>\$339,352</u>	<u>\$5,694,352</u>

General Obligation Notes

<u>Years</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$150,672	\$50,464	\$201,136
2020	155,337	45,800	201,137
2021	160,144	40,992	201,136
2022	165,096	36,040	201,136
2023	170,202	30,932	201,134
2024-2028	775,973	72,448	848,421
2029	46,367	1,506	47,873
Totals	<u>\$1,623,791</u>	<u>\$278,182</u>	<u>\$1,901,973</u>

MARION CITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2018

NOTE 11 - CAPITAL LEASES

The District has entered into capitalized leases for equipment in the amount of \$273,762 as of June 30, 2018. Each lease meets the criteria of a capital lease, which transfers benefits and risks of ownership to the lessee. Capital lease payments are reflected as debt service expenditures on the statement of revenues, expenditures, and changes in fund balances for the governmental funds. Principal payments in 2018 were \$39,192. These capital leases were paid in full as of June 30, 2018.

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MARION CITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2018

NOTE 12 - RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. During fiscal year 2018, the School District contracted for the following insurance coverage:

<u>Type of Coverage</u>	<u>Coverage</u>
Buildings and Contents – replacement cost	\$182,909,653
Auto Liability	1,000,000
General Liability	
Each Occurrence	1,000,000
Aggregate	2,000,000
Excess Liability	5,000,000

There has been no significant reduction in insurance coverages from coverages in the prior year. In addition, settled claims resulting from these risks have not exceeded commercial insurance coverages in any of the past three fiscal years.

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

The Administrative Services - Employee Benefit Self-Insurance Fund, an internal service fund, is used to account for, and finance self-insurance activities. This fund includes prescription drug, dental and health insurance benefits.

MARION CITY SCHOOL DISTRICT, OHIO

***Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018***

NOTE 13 – STATUTORY RESERVES

The District is required by state law to set aside certain general fund revenue amounts, as defined, into various reserves. During the fiscal year ended June 30, 2018, the reserve activity (cash-basis) was as follows:

	Capital Maintenance
Set-aside Balance as of June 30, 2017	\$0
Current Year Set-Aside Requirement	725,891
Current Year Offset Credits	(725,891)
Qualifying Disbursements	0
Total	<u>\$0</u>
Set-aside Balance Carried Forward to FY 2019	<u>\$0</u>

NOTE 14 – JOINTLY GOVERNED ORGANIZATIONS

A. Metropolitan Educational Technology Association

The District is a participant in the Metropolitan Educational Technology Association (META), which is a computer consortium. META is an association of public school districts within the boundaries of Delaware, Knox, Marion, Morrow, Muskingum, and Wyandot Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of META consists of one representative from each County elected by majority vote of all charter member school districts within each County, one representative from the City school districts, and the superintendent from Tri-Rivers Joint Vocational School. During fiscal year 2018, the District paid \$117,285 to META for various services. Financial information can be obtained from META, 100 Executive Drive, Marion, Ohio 43302.

MARION CITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2018

NOTE 14 – JOINTLY GOVERNED ORGANIZATIONS (Continued)

B. Tri-Rivers Joint Vocational School

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

NOTE 15 – RELATED ORGANIZATION

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

NOTE 16 – DONOR RESTRICTED ENDOWMENTS

The School District's private purpose trust fund includes donor restricted endowments. Endowments, in the amount of \$98,973 represent the principal portion. The amount of net appreciation in donor restricted investments that is available for expenditures by the School District is \$6,835 and is included as held in trust for scholarships. State law permits the School District to appropriate, for purposes consistent with the endowment's intent, net appreciation, realized and unrealized, unless the endowment terms specify otherwise. The endowment indicates that the interest should be used to provide a scholarship each year.

MARION CITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2018

NOTE 17 - CONTINGENCIES

A. Grants

The District receives financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2018.

B. Litigation

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

C. School District Foundation Funding

School District foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. The Ohio Department of Education (ODE) is legislatively required to adjust/reconcile funding as enrollment information is updated by schools throughout the State, which can extend past the fiscal year end. As of the date of this report, additional ODE adjustments for fiscal year 2018 are not finalized. As a result, the impact of future FTE adjustments on the fiscal year 2018 financial statements is not determinable, at this time. Management believes this may result in either an additional receipt or expense of, the School District.

NOTE 18 – CHANGE IN ACCOUNTING PRINCIPLE

For fiscal year 2018, the District implemented GASB Statement No. 75, “*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*”.

Statement No. 75 replaces the requirements of GASB Statement No. 45 and addresses accounting and financial reporting for postemployment benefits that are provided to the employees of state and local government employers. In addition, it establishes standards for measuring and recognizing liabilities, deferred inflows and outflows of resources and expenses and addresses note disclosure and required supplementary information requirements.

The implementation of this GASB Statement had no impact on beginning of year fund balance/net position.

MARION CITY SCHOOL DISTRICT, OHIO

SUPPLEMENTAL INFORMATION

MARION CITY SCHOOL DISTRICT, OHIO

Schedule of District's Proportionate Share of the Net Pension Liability Last Five Fiscal Years

State Teachers Retirement System					
Fiscal Year	2013	2014	2015	2016	2017
District's proportion of the net pension liability (asset)	0.20697648%	0.20697648%	0.21145251%	0.21843082%	0.22868858%
District's proportionate share of the net pension liability (asset)	\$59,969,256	\$50,343,843	\$58,439,289	\$73,115,380	\$54,325,462
District's covered-employee payroll	\$21,077,538	\$20,681,315	\$21,169,200	\$23,512,543	\$25,004,571
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	284.52%	243.43%	276.06%	310.96%	217.26%
Plan fiduciary net position as a percentage of the total pension liability	69.30%	74.70%	72.10%	66.80%	75.30%

Source: District Treasurer's Office and State Teachers Retirement System

School Employees Retirement System					
Fiscal Year	2013	2014	2015	2016	2017
District's proportion of the net pension liability (asset)	0.174691%	0.174691%	0.198155%	0.207666%	0.203297%
District's proportionate share of the net pension liability (asset)	\$10,388,313	\$8,841,012	\$11,306,888	\$15,199,220	\$12,146,535
District's covered-employee payroll	\$4,522,296	\$5,104,978	\$5,110,835	\$6,991,886	\$6,435,086
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	229.71%	173.18%	221.23%	217.38%	188.75%
Plan fiduciary net position as a percentage of the total pension liability	65.52%	71.70%	69.16%	62.98%	69.50%

Source: District Treasurer's Office and School Employees Retirement System

Notes: The District implemented GASB Statement 68 in 2015.

Information prior to 2013 is not available.

The schedule is reported as of the measurement date of the Net Pension Liability.

See accompanying notes to the RSI

MARION CITY SCHOOL DISTRICT, OHIO

Schedule of District Pension Contributions Last Five Fiscal Years

State Teachers Retirement System

Fiscal Year	2014	2015	2016	2017	2018
Contractually required contribution	\$2,688,571	\$2,963,688	\$3,291,756	\$3,500,640	\$3,799,752
Contributions in relation to the contractually required contribution	<u>2,688,571</u>	<u>2,963,688</u>	<u>3,291,756</u>	<u>3,500,640</u>	<u>3,799,752</u>
Contribution deficiency (excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
District's covered-employee payroll	\$20,681,315	\$21,169,200	\$23,512,543	\$25,004,571	\$27,141,086
Contributions as a percentage of covered-employee payroll	13.00%	14.00%	14.00%	14.00%	14.00%

Source: District Treasurer's Office and State Teachers Retirement System

School Employees Retirement System

Fiscal Year	2014	2015	2016	2017	2018
Contractually required contribution	\$707,550	\$673,608	\$978,864	\$900,912	\$923,352
Contributions in relation to the contractually required contribution	<u>707,550</u>	<u>673,608</u>	<u>978,864</u>	<u>900,912</u>	<u>923,352</u>
Contribution deficiency (excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
District's covered-employee payroll	\$5,104,978	\$5,110,835	\$6,991,886	\$6,435,086	\$6,839,644
Contributions as a percentage of covered-employee payroll	13.86%	13.18%	14.00%	14.00%	13.50%

Source: District Treasurer's Office and School Employees Retirement System

Notes: The District implemented GASB Statement 68 in 2015.

Information prior to 2014 is not available.

See accompanying notes to the RSI

MARION CITY SCHOOL DISTRICT, OHIO

Schedule of the District's Proportionate Share of the Net Other Postemployment Benefits (OPEB) Liability Last Two Fiscal Years

State Teachers Retirement System

Fiscal Year	<u>2017</u>	<u>2018</u>
District's proportion of the net OPEB liability (asset)	0.218431%	0.228689%
District's proportionate share of the net OPEB liability (asset)	\$12,230,325	\$8,922,585
District's covered payroll	\$23,512,543	\$25,004,571
District's proportionate share of the net OPEB liability (asset) as a percentage of its covered payroll	52.02%	35.68%
Plan fiduciary net position as a percentage of the total OPEB liability	37.30%	47.10%

Source: District Treasurer's Office and State Teachers Retirement System

School Employees Retirement System

Fiscal Year	<u>2017</u>	<u>2018</u>
District's proportion of the net OPEB liability (asset)	0.215224%	0.205867%
District's proportionate share of the net OPEB liability (asset)	\$5,867,977	\$5,524,935
District's covered payroll	\$6,991,886	\$6,435,086
District's proportionate share of the net OPEB liability (asset) as a percentage of its covered payroll	83.93%	85.86%
Plan fiduciary net position as a percentage of the total OPEB liability	N/A	12.46%

Source: District Treasurer's Office and School Employees Retirement System

Notes: The District implemented GASB Statement 75 in 2018.

The schedule is intended to show ten years of information. Additional years will be displayed as they become available. Information prior to 2017 is not available.

The schedule is reported as of the measurement date of the Net OPEB Liability, which is the prior year end.

See accompanying notes to the RSI

MARION CITY SCHOOL DISTRICT, OHIO

***Schedule of District Other Postemployment Benefit (OPEB) Contributions
Last Four Fiscal Years***

State Teachers Retirement System

Fiscal Year	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Contractually required contribution	\$0	\$0	\$0	\$0
Contributions in relation to the contractually required contribution	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Contribution deficiency (excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
District's covered payroll	\$21,169,200	\$23,512,543	\$25,004,571	\$27,141,086
Contributions as a percentage of covered payroll	0.00%	0.00%	0.00%	0.00%

Source: District Treasurer's Office and State Teachers Retirement System

School Employees Retirement System

Fiscal Year	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Contractually required contribution	\$139,572	\$88,785	\$106,850	\$143,181
Contributions in relation to the contractually required contribution	<u>139,572</u>	<u>88,785</u>	<u>106,850</u>	<u>143,181</u>
Contribution deficiency (excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
District's covered payroll	\$5,110,835	\$6,991,886	\$6,435,086	\$6,839,644
Contributions as a percentage of covered payroll	2.73%	1.27%	1.66%	2.09%

Source: District Treasurer's Office and School Employees Retirement System

Notes: The District implemented GASB Statement 75 in 2018.

Information prior to 2015 is not available.

See accompanying notes to the RSI

MARION CITY SCHOOL DISTRICT, OHIO

Notes to the Required Supplemental Information For the Fiscal Year Ended June 30, 2018

SERS

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal years 2015 - 2018.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2014-2016. For fiscal year 2017, the following changes of assumptions affected the total pension liability since the prior measurement date: (a) the assumed rate of inflation was reduced from 3.25% to 3.00%, (b) payroll growth assumption was reduced from 4.00% to 3.50%, (c) assumed real wage growth was reduced from 0.75% to 0.50%, (d) rates of withdrawal, retirement and disability were updated to reflect recent experience, (e) mortality among active members was updated to RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females, (f) mortality among service retired members, and beneficiaries was updated to the following RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120% of male rates, and 110% of female rate, and (g) mortality among disable member was updated to RP-2000 Disabled Mortality Table, 90% for male rates and 100% for female rates, set back five years is used for the period after disability retirement.

STRS

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal years 2015 - 2017. Effective July 1, 2017, the COLA was reduced to zero.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2015-2017. The Retirement Board approved several changes to the actuarial assumptions in 2017. The long term expected rate of return was reduced from 7.75% to 7.45%, the inflation assumption was lowered from 2.75% to 2.50%, the payroll growth assumption was lowered to 3.00%, and total salary increases rate was lowered by decreasing the merit component of the individual salary increases, in addition to a decrease of 0.25% due to lower inflation. The healthy and disabled mortality assumptions were updated to the RP-2014 mortality tables with generational improvement scale MP-2016. Rates of retirement, termination and disability were modified to better reflect anticipated future experience. See the notes to the basic financials for the methods and assumptions in this calculation.

MARION CITY SCHOOL DISTRICT, OHIO

Notes to the Required Supplemental Information For the Fiscal Year Ended June 30, 2018

NET OPEB LIABILITY

SERS

Changes in assumptions: Amounts reported for fiscal year 2018 incorporate changes in key methods and assumptions used in calculating the total OPEB liability as presented below:

Municipal Bond Index Rate:

Fiscal year 2018	3.56 percent
Fiscal year 2017	2.92 percent

Single Equivalent Interest Rate, net of plan investment expense, including price inflation

Fiscal year 2018	3.63 percent
Fiscal year 2017	2.98 percent

STRS

Changes in assumptions: For fiscal year 2018, the discount rate was increased from 3.26 percent to 4.13 percent based on the methodology defined under GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB) and the long term expected rate of return was reduced from 7.75 percent to 7.45 percent. Valuation year per capita health care costs were updated, and the salary scale was modified. The percentage of future retirees electing each option was updated based on current data and the percentage of future disabled retirees and terminated vested participants electing health coverage were decreased. The assumed mortality, disability, retirement, withdrawal and future health care cost trend rates were modified along with the portion of rebated prescription drug costs.

Also for fiscal year 2018, the subsidy multiplier for non-Medicare benefit recipients was reduced from 2.1 percent to 1.9 percent per year of service. Medicare Part B premium reimbursements were discontinued for certain survivors and beneficiaries and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 2019.

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**MARION CITY SCHOOL DISTRICT
MARION COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018
(Prepared by Management)**

Federal Grantor/ Pass Through Grantor/ Program Title	Grant Year	Federal CFDA Number	Disbursements	Non-cash Disbursements
U.S. DEPARTMENT OF AGRICULTURE				
<i>Passed Through Ohio Department of Education</i>				
Child Nutrition Cluster:				
<i>Cash Assistance:</i>				
Federal Lunch	2018	10.555	\$ 1,729,570	\$ 206,305
Federal Breakfast	2018	10.553	863,512	-
Federal Snack	2018	10.555	52,933	-
Federal Performance Lunch	2018	10.555	30,844	-
Federal Supper Program	2018	10.558	26,017	-
Federal Summer Foods	2018	10.559	146,397	-
Total Child Nutrition Cluster			2,849,273	206,305
Federal Fruits and Vegetables	2018	10.582	159,118	-
Team Nutrition	2018	10.574	3,000	-
TOTAL U.S. DEPARTMENT OF AGRICULTURE			3,011,391	206,305
U.S. DEPARTMENT OF EDUCATION				
<i>Passed through Ohio Department of Education</i>				
Title I Grants to Local Education Agencies				
Title I - FY17	2017	84.010	318,531	-
Title I - FY18	2018	84.010	1,367,074	-
Total Title I Grants to Local Education Agencies			1,685,605	-
Special Education Cluster				
Special Education_Grants to States	2017	84.027	62,168	-
Special Education_Grants to States	2018	84.027	1,056,963	-
Special Education_Preschool Grants	2017	84.173	41,585	-
Total Special Education Cluster			1,160,716	-
Twenty-first Century Community Learning Centers				
21st Century	2017	84.287	33,088	-
21st Century	2018	84.287	317,289	-
Total Twenty-first Century Community Learning Centers			350,377	-
Improving Teacher Quality State Grants				
Improving Teacher Quality	2016	84.367	54,161	-
Improving Teacher Quality	2017	84.367	334,301	-
Total Improving Teacher Quality State Grants			388,462	-
School Improvement Grants SIG				
SIG Grant - FY17	2017	84.377	50,102	-
SIG Grant - FY18	2018	84.377	562,804	-
Total School Improvement Grants - SIG			612,906	-
McKinney Vento				
McKinney Vento - FY17	2017	84.196	2,377	-
McKinney Vento - FY18	2018	84.196	35,301	-
Total McKinney Vento Grants			37,678	-
English Language Acquisition	2018	84.365	6,213	-
Student Support and Academic Enrichment (Title IV-A)	2018	84.424	31,825	-
Rural and Low-Income School Grant	2018	84.358	81,046	-
TOTAL U.S. DEPARTMENT OF EDUCATION			4,354,828	-
TOTAL U.S. DEPARTMENT OF JUSTICE				
<i>Passed through Ohio Department of Education</i>				
JAG Grant	2016	16.738	8,794	-
TOTAL U.S. DEPARTMENT OF JUSTICE			8,794	-
TOTAL FEDERAL AWARDS EXPENDITURES			\$ 7,375,013	\$ 206,305

The accompanying notes are an integral part of this schedule.

**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
2 CFR 200.510(b)(6)
FOR THE YEAR ENDED JUNE 30, 2018
(Prepared by Management)**

NOTE A – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of Marion City School District's (District) under programs of the federal government for the year ended June 30, 2018. The information on this Schedule is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net position, or cash flows of the District.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures may or may not be allowable or may be limited as to reimbursement.

NOTE C – INDIRECT COSTS

The District has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE D - CHILD NUTRITION CLUSTER

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

NOTE E – FOOD DONATION PROGRAM

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

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Charles E. Harris & Associates, Inc.
Certified Public Accountants

**INDEPENDENT AUDITORS' 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
Marion County
420 Presidential Drive, Suite B
Marion, Ohio 43302

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, 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, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 27, 2018. We noted the District reports on the modified cash basis of accounting, which is a comprehensive accounting basis other than generally accepted accounting principles. We also noted the District adopted Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

Internal Controls Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 an instance of noncompliance or other matter we must report under *Government Auditing Standards*, which is described in the accompanying Schedule of Findings as item 2018-001.


We also noted certain matters not requiring inclusion in this report that we reported to the District's management in a separate letter dated December 27, 2018.

Entity's Response to Finding

The District's response to the finding identified in our audit is described in the accompanying Corrective Action Plan. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Charles E. Harris & Associates, Inc.
December 27, 2018

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR THE
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE

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

To the Board of Education:

Report on Compliance for the Major Federal Program

We have audited the Marion City School District, Marion County, Ohio's, (District) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Compliance Supplement that could have a direct and material effect on the District's major federal program for the year ended June 30, 2018. The District's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the District's major federal program based on our audit of the types of compliance requirements referred to above. 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 the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our opinion on compliance for the major program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on the Major Federal Program

In our opinion, the Marion City School District, Marion County, Ohio, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal programs for the year ended June 30, 2018.

Report on Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Charles E. Harris & Associates, Inc.
December 27, 2018

**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

SCHEDULE OF FINDINGS

2 CFR § 200.515

June 30, 2018

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	<i>Type of Financial Statement Opinion</i>	Unmodified
(d)(1)(ii)	<i>Were there any material control weaknesses reported at the financial statement level (GAGAS)?</i>	No
(d)(1)(ii)	<i>Were there any significant deficiencies reported at the financial statement level (GAGAS)?</i>	No
(d)(1)(iii)	<i>Was there any reported material non-compliance at the financial statement level (GAGAS)?</i>	Yes
(d)(1)(iv)	<i>Were there any material internal control weaknesses reported for major federal programs?</i>	No
(d)(1)(iv)	<i>Were there any significant deficiencies reported for major federal programs?</i>	No
(d)(1)(v)	<i>Type of Major Programs' Compliance Opinion</i>	Unmodified
(d)(1)(vi)	<i>Are there any reportable findings under 2 CFR § 200.516(a)</i>	No
(d)(1)(vii)	<i>Major Programs:</i>	Nutrition Cluster – CFDA# 10.553, 10.555, 10.558, 10.559
(d)(1)(viii)	<i>Dollar Threshold: Type A\B Programs</i>	Type A: >\$750,000 Type B: All Others
(d)(1)(ix)	<i>Low Risk Auditee under 2 CFR § 200.520?</i>	No

**MARION CITY SCHOOL DISTRICT
MARION COUNTY**

**SCHEDULE OF FINDINGS – (continued)
2 CFR § 200.515
JUNE 30, 2018**

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

**FINDING NUMBER 2018-001
Noncompliance**

Ohio Administrative Code Section 117-2-03 (B) states “All counties, cities and school districts, including educational service centers and community schools, shall file annual financial reports which are prepared using generally accepted accounting principles.”

The District prepared its financial statements on modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. To be in compliance with the Ohio Administrative Code, the District should use generally accepted accounting principles in future annual reports. Not using principles generally accepted in the United States of America makes the District subject to fines and other administrative remedies.

Official’s Response:

See Corrective Action Plan.

3. FINDINGS FOR FEDERAL AWARDS

None

MARION CITY SCHOOL DISTRICT
MARION COUNTY
Schedule of Prior Audit Findings-Prepared by Management
2 CFR 200.511(b)
For the Year Ended June 30, 2018

FINDING NUMBER	FUNDING SUMMARY	STATUS	ADDITIONAL INFORMATION
2017-001	Contrary to Ohio Administrative Code Section 117-2-03(B) , The District does not prepare its financial report in accordance with accounting principles generally accepted in the United States of America.	Not Corrected	See Corrective Action Plan

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MARION CITY SCHOOL DISTRICT
MARION COUNTY

CORRECTIVE ACTION PLAN – Prepared by Management
2 CFR § 200.511(c)
June 30, 2018

FINDING NUMBER	PLANNED CORRECTIVE ACTION	ANTICIPATED COMPLETION DATE	RESPONSIBLE CONTACT PERSON
2018-001	The District analyzed the risks and benefits of continuing to convert financials from a cash basis to a GAAP basis. In order to reduce time and costs, a decision was made to present financials following the modified cash basis.	N/A	Veronica Reinhart, Treasurer

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OHIO AUDITOR OF STATE KEITH FABER



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
FEBRUARY 14, 2019**