



**Auditor of State
Betty Montgomery**

**MARLINGTON LOCAL SCHOOL DISTRICT
STARK COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Marlington Local School District
Stark County
10320 Moulin Avenue
Alliance, Ohio 44601

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Marlington Local School District, Stark County, Ohio, (the District) as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Marlington Local School District, Stark County, Ohio, as of June 30, 2004, and the respective changes in financial position and the respective budgetary comparison for the General Fund thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 22, 2005 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 grants agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements. The Federal Awards Receipts and Expenditures Schedule is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. We subjected the Federal Awards Receipts and Expenditures Schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

April 22, 2005

**MARLINGTON LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

The management's discussion and analysis of the Marlinton Local School District's ("the District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2004 are as follows:

- In total, net assets of governmental activities increased \$508,074 which represents a 5.87% increase from 2003.
- General revenues accounted for \$19,700,685 in revenue or 88.76% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$2,495,039 or 11.24% of total revenues of \$22,195,724.
- The District had \$21,687,650 in expenses related to governmental activities; only \$2,495,039 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$19,700,685 were adequate to provide for these programs.
- The District's major governmental funds are the general fund and permanent improvement fund. The general fund had \$19,348,939 in revenues and \$18,604,938 in expenditures and other financing uses. During fiscal year 2004, the general fund's fund balance increased \$745,981 from \$1,651,128 to \$2,397,109.
- The District's other major governmental fund the permanent improvement fund had \$505,801 in revenues and \$929,333 in expenditures. During fiscal year 2004, the permanent improvement fund's fund balance decreased \$423,532 from \$1,122,190 to \$698,658.

Using these Basic Financial Statements

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

The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds with all other non-major funds presented in total in one column. In the case of the District, the general fund and permanent improvement fund are by far the most significant funds, and the only governmental funds reported as major funds.

**MARLINGTON LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2004?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

The District's statement of net assets and statement of activities can be found on pages 13-14 of this report.

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major governmental funds begins on page 9. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's major governmental funds are the general fund and permanent improvement fund.

Governmental Funds

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* than can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the District's general governmental operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 15-19 of this report.

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private-purpose trust fund. The District also acts in a trustee capacity as an agent for individuals. These activities are reported in an agency fund. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 20 and 21. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

**MARLINGTON LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 23-48 of this report.

The District as a Whole

The Statement of Net Assets provides the perspective of the District as a whole.

The table below provides a summary of the District's net assets for 2004 and 2003.

| | Net Assets | |
|--|---|---|
| | Governmental Activities <u>2004</u> | Governmental Activities <u>2003</u> |
| <u>Assets</u> | | |
| Current and other assets | \$ 15,541,717 | \$ 14,385,367 |
| Capital assets | <u>6,755,884</u> | <u>6,463,045</u> |
| Total assets | <u>22,297,601</u> | <u>20,848,412</u> |
| <u>Liabilities</u> | | |
| Current liabilities | 11,228,890 | 10,353,892 |
| Long-term liabilities | <u>1,901,003</u> | <u>1,834,886</u> |
| Total liabilities | <u>13,129,893</u> | <u>12,188,778</u> |
| <u>Net Assets</u> | | |
| Invested in capital assets, net of related debt | 6,210,383 | 5,862,210 |
| Restricted | 932,365 | 1,232,140 |
| Unrestricted | <u>2,024,960</u> | <u>1,565,284</u> |
| Total net assets | <u>\$ 9,167,708</u> | <u>\$ 8,659,634</u> |

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2004, the District's assets exceeded liabilities by \$9,167,708. At year-end, unrestricted net assets were \$2,024,960.

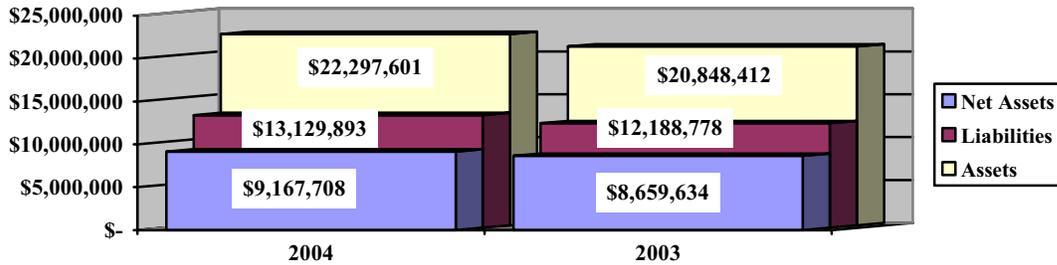
At year-end, capital assets represented 30.30% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment, and vehicles. The amount invested in capital assets, net of related debt to acquire the assets at June 30, 2004, were \$6,210,383. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$932,365, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$2,024,960 may be used to meet the District's ongoing obligations to the students and creditors.

**MARLINGTON LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

Governmental Activities



The table below shows the change in net assets for fiscal years 2004 and 2003.

Change in Net Assets

| | Governmental Activities 2004 | Governmental Activities 2003 |
|------------------------------------|------------------------------------|------------------------------------|
| <u>Revenues</u> | | |
| Program revenues: | | |
| Charges for services and sales | \$ 1,085,340 | \$ 1,121,498 |
| Operating grants and contributions | 1,344,524 | 1,008,839 |
| Capital grants and contributions | 65,175 | - |
| General revenues: | | |
| Property taxes | 8,245,995 | 7,309,295 |
| Grants and entitlements | 11,293,925 | 10,498,119 |
| Investment earnings | 34,607 | 74,256 |
| Gain on sale of capital assets | - | 24,181 |
| Other | 126,158 | 41,143 |
| Total revenues | 22,195,724 | 20,077,331 |

**MARLINGTON LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

Change in Net Assets

| | Governmental Activities <u>2004</u> | Governmental Activities <u>2003</u> |
|--|---|---|
| <u>Expenses</u> | | |
| Program expenses: | | |
| Instruction: | | |
| Regular | 8,550,787 | 8,366,714 |
| Special | 2,139,134 | 1,890,472 |
| Vocational | 877,938 | 942,538 |
| Other | 763,832 | 676,191 |
| Support services: | | |
| Pupil | 787,546 | 869,176 |
| Instructional staff | 681,039 | 570,502 |
| Board of education | 28,150 | 26,932 |
| Administration | 1,746,625 | 1,568,811 |
| Fiscal | 350,631 | 319,588 |
| Business | 214,952 | 213,987 |
| Operations and maintenance | 2,635,510 | 1,790,429 |
| Pupil transportation | 1,184,547 | 1,079,605 |
| Central | 17,434 | 24,572 |
| Operations of non-instructional services | 83,663 | 10,577 |
| Food service operations | 766,280 | 788,230 |
| Extracurricular activities | 823,179 | 861,054 |
| Interest and fiscal charges | <u>36,403</u> | <u>44,673</u> |
| Total expenses | <u>21,687,650</u> | <u>20,044,051</u> |
| Change in net assets | 508,074 | 33,280 |
| Net assets at beginning of year | <u>8,659,634</u> | <u>8,626,354</u> |
| Net assets at end of year | <u>\$ 9,167,708</u> | <u>\$ 8,659,634</u> |

Governmental Activities

Net assets of the District's governmental activities increased \$508,074. Total governmental expenses of \$21,687,650 were offset by program revenues of \$2,495,039 and general revenues of \$19,700,685. Program revenues supported 11.24% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes and grants and entitlements. These two revenue sources represent 88.03% of total governmental revenue. Real estate property is reappraised every six years.

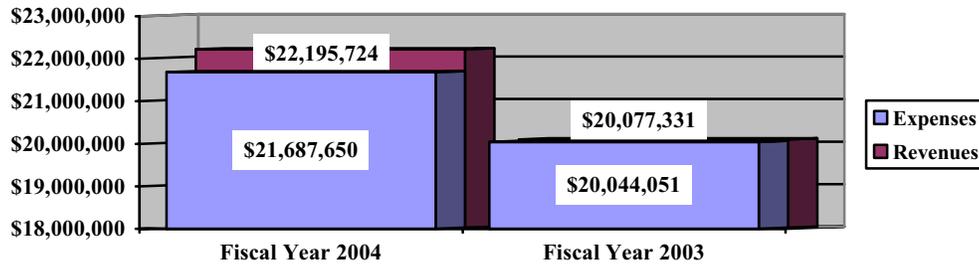
The District's financial condition has remained static in recent years, primarily due to increased financial support from the State. Future increases in State funding are projected to be more inflationary rather than the significant increases seen over the past several years, the District is projecting a decrease in state funding for future years.

**MARLINGTON LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

The graph below presents the District's governmental activities revenue and expenses for fiscal years 2004 and 2003.

Governmental Activities - Revenues and Expenses



The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements.

Governmental Activities

| | Total Cost of Services <u>2004</u> | Net Cost of Services <u>2004</u> | Total Cost of Services <u>2003</u> | Net Cost of Services <u>2003</u> |
|--|--|--|--|--|
| Program expenses | | | | |
| Instruction: | | | | |
| Regular | \$ 8,550,787 | \$ 8,110,841 | \$ 8,366,714 | \$ 7,952,581 |
| Special | 2,139,134 | 1,645,920 | 1,890,472 | 1,486,833 |
| Vocational | 877,938 | 846,269 | 942,538 | 915,871 |
| Other | 763,832 | 763,832 | 676,191 | 676,125 |
| Support services: | | | | |
| Pupil | 787,546 | 604,025 | 869,176 | 710,150 |
| Instructional staff | 681,039 | 656,212 | 570,502 | 556,718 |
| Board of education | 28,150 | 28,150 | 26,932 | 26,932 |
| Administration | 1,746,625 | 1,737,019 | 1,568,811 | 1,556,594 |
| Fiscal | 350,631 | 350,631 | 319,588 | 319,327 |
| Business | 214,952 | 208,208 | 213,987 | 203,863 |
| Operations and maintenance | 2,635,510 | 2,579,441 | 1,790,429 | 1,785,659 |
| Pupil transportation | 1,184,547 | 1,183,737 | 1,079,605 | 1,077,407 |
| Central | 17,434 | 17,434 | 24,572 | 24,572 |
| Operations of non-instructional services | 83,663 | 82,081 | 10,577 | 7,175 |
| Food service operations | 766,280 | (8,871) | 788,230 | 40,219 |
| Extracurricular activities | 823,179 | 351,279 | 861,054 | 529,015 |
| Interest and fiscal charges | 36,403 | 36,403 | 44,673 | 44,673 |
| Total | <u>\$ 21,687,650</u> | <u>\$ 19,192,611</u> | <u>\$ 20,044,051</u> | <u>\$ 17,913,714</u> |

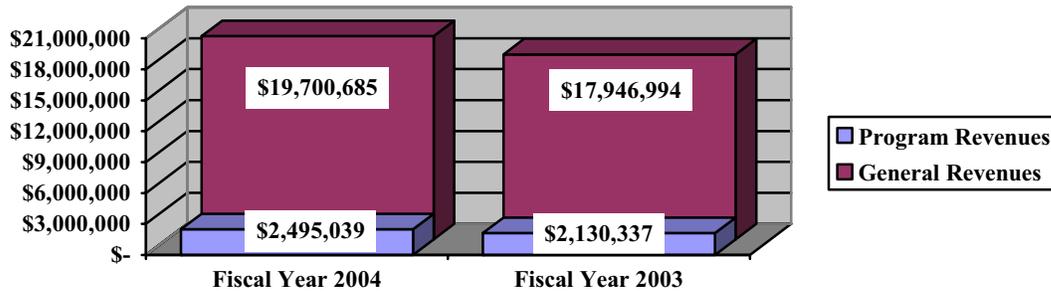
**MARLINGTON LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

The dependence upon tax and other general revenues for governmental activities is apparent, 92.18% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 88.76%. The District's taxpayers and grants and entitlements, as a whole, are by far the primary support for District's students.

The graph below presents the District's governmental activities revenue for fiscal years 2004 and 2003.

Governmental Activities - General and Program Revenues



The District's Funds

The District's governmental funds (as presented on the balance sheet on page 15) reported a combined fund balance of \$3,649,179, which is higher than last year's total of \$3,000,905. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2004 and 2003.

| | Fund Balance <u>June 30, 2004</u> | Fund Balance <u>June 30, 2003</u> | Increase <u>(Decrease)</u> |
|-----------------------|--------------------------------------|--------------------------------------|-------------------------------|
| General | \$ 2,397,109 | \$ 1,651,128 | \$ 745,981 |
| Permanent improvement | 698,658 | 1,122,190 | (423,532) |
| Other Governmental | <u>553,412</u> | <u>227,587</u> | <u>325,825</u> |
| Total | <u>\$ 3,649,179</u> | <u>\$ 3,000,905</u> | <u>\$ 648,274</u> |

General Fund

The District's general fund, fund balance increased by \$745,981. The increase in fund balance can be attributed to an increase in intergovernmental revenue which increased \$815,594. The increase in property tax revenue was a result of a new 8.5 mil operating levy which passed in May 2003. The decrease in interest revenue was caused by a decrease in interest rates. The increase in debt service expenditures is related to payments made on the capital lease, detailed in Note 8 to the basic financial statements. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

**MARLINGTON LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

| | <u>2004</u> <u>Amount</u> | <u>2003</u> <u>Amount</u> | <u>Percentage</u> <u>Change</u> |
|---|------------------------------|------------------------------|------------------------------------|
| <u>Revenues</u> | | | |
| Taxes | \$ 7,788,601 | \$ 6,809,411 | 14.38 % |
| Tuition and fees | 146,929 | 205,589 | (28.53) % |
| Earnings on investments | 18,056 | 34,545 | (47.73) % |
| Intergovernmental | 11,257,566 | 10,441,972 | 7.81 % |
| Other revenues | <u>137,787</u> | <u>103,649</u> | 32.94 % |
| Total | <u>\$ 19,348,939</u> | <u>\$ 17,595,166</u> | 9.97 % |
| <u>Expenditures</u> | | | |
| Instruction | \$ 11,479,695 | \$ 10,689,273 | 7.39 % |
| Support services | 6,566,131 | 6,112,111 | 7.43 % |
| Operation of non-instructional services | 18,324 | 7,873 | 132.74 % |
| Extracurricular activities | 413,001 | 467,626 | (11.68) % |
| Facilities acquisition and construction | - | 4,452 | (100.00) % |
| Debt service | <u>91,737</u> | <u>70,358</u> | 30.39 % |
| Total | <u>\$ 18,568,888</u> | <u>\$ 17,351,693</u> | 7.01 % |

Permanent Improvement Fund

The District's permanent improvement fund, fund balance decreased by \$423,532. Expenditures increased \$818,092 while revenues increased only \$290,298.

General Fund Budgeting Highlights

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 2004, the District amended its general fund budget numerous times. For the general fund, final budgeted revenues and other financing sources were \$19,019,651, which was less than the original budgeted revenues estimate of \$21,019,651. Actual revenues and other financing sources for fiscal 2004 was \$20,527,978. This represents a \$1,508,327 increase over final budgeted revenues.

General fund final appropriations (appropriated expenditures plus other financing uses) of \$20,861,832 were higher than the original budgeted appropriations estimate of \$19,057,391, because of increased salaries and benefits and the cost of goods purchased. The actual budget basis expenditures and other financing uses for fiscal year 2004 totaled \$21,015,138. This represents a \$153,306 increase over final budgeted appropriations which is mainly due to an increase in instructional expenditures.

**MARLINGTON LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

Capital Assets and Debt Administration

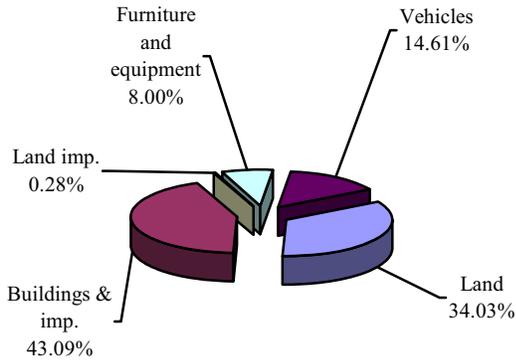
Capital Assets

At the end of fiscal 2004, the District had \$6,755,884 invested in land, land improvements, buildings and improvements, furniture and equipment, and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal 2004 balances compared to 2003:

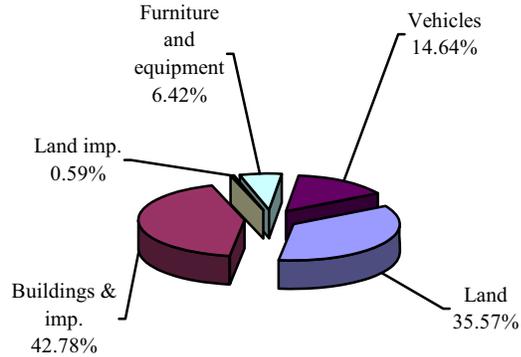
| | Capital Assets at June 30 (Net of Depreciation) | |
|---------------------------|--|----------------------------|
| | <u>Governmental Activities</u> | |
| | <u>2004</u> | <u>2003</u> |
| Land | \$ 2,298,712 | \$ 2,298,712 |
| Land improvements | 18,675 | 38,350 |
| Building and improvements | 2,910,883 | 2,765,207 |
| Furniture and equipment | 540,736 | 414,773 |
| Vehicles | 986,878 | 946,003 |
| Total | <u>\$ 6,755,884</u> | <u>\$ 6,463,045</u> |

The overall increase in capital assets of \$292,839 is primarily due to capital outlays of \$632,674 exceeding depreciation expense of \$339,835 in the fiscal year.

Capital Assets - Governmental Activities 2004



Capital Assets - Governmental Activities 2003



See Note 9 to the basic financial statements for additional information on the District's capital assets.

Debt Administration

At June 30, 2004, the District had no general obligation bonds or loans outstanding. The District has a capital lease in the amount of \$545,501.

See Note 10 to the basic financial statements for additional information on the District's debt administration.

**MARLINGTON LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

Current Financial Related Activities

The District has carefully managed its General Fund budgets in order to optimize the dollars available for educating the students it serves, and to minimize the levy millage amounts needed periodically from the community's citizens. The District continues to be concerned with maintaining adequate revenue while controlling costs. Inflationary increases in costs associated with education, threats of decreases in State aid and annual decreases in the effective millage of levies (to keep revenue generated from levies unchanged while property values increase), will continue to put pressure on the District to go before the community in the future to levy for additional funds.

The District is also concerned with potential changes in State funding. An example of this is Parity Aid. In 2004, the District received almost \$743,000 in Parity Aid. Parity Aid is being phased in over five years and is scheduled to reach full funding in 2006. There is currently no State commitment to continue financing Parity Aid in 2007, which, if not replaced, will cause a significant reduction in revenue to the District. The District relies heavily on State funding, with the State share of funding for 2004 calculated by state formula at 53.8% of total revenue.

The community passed a new 8.5 mil operating levy in May, 2003, representing the first new operating revenue since 1990. In November, 2004 the community renewed a 2 mil permanent improvement levy, which has been decreased to an effective 1.4 mils due to increases in local property valuations since 1999 when it replaced the previous 2.5 mil permanent improvement levy. In order to maintain existing revenue levels generated by limited levies, the District, under its current levy renewal schedule, must go before the voters 4 out of 5 years.

Although enrollment has remained fairly steady in 2004 compared to 2003, the District remains concerned about possible declining enrollment, since enrollment is the primary basis for State funding calculations. In 2004, District enrollment was 2,746 students, compared to 2,808 students in 2003.

Other concerns for the District include increases in the cost of health insurance benefits, increases in fuel costs for buses, and increases in utilities expense. In 2004, the District was able to limit increases in total expenditures to 3.5% over 2003 levels.

In 2004, the District made some significant contributions to the maintenance and improvement of school buildings and grounds. Improvements included the repaving of the high school parking lot, new windows at Washington Elementary school, completion of new science labs at Marlinton High School, and roof re-coating.

As a result of the District's efforts for continuous educational improvement, the District was awarded in 2004 a rating of "Effective" by the Ohio Department of Education, representing an improvement from a rating of "Continuous Improvement" in 2003. The District continues to be committed to both long-term educational and financial effectiveness.

Contacting the District's Financial Management

This financial report is designed to provide our citizen's taxpayers, and 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 Mr., Robert Foss, Treasurer, 10320 Moulin Avenue NE, Alliance, Ohio, 44601-9797.

**MARLINGTON LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

STATEMENT OF NET ASSETS
JUNE 30, 2004

| | Governmental Activities |
|---|------------------------------------|
| Assets: | |
| Equity in pooled cash and cash equivalents. . . | \$ 5,380,358 |
| Receivables: | |
| Taxes | 9,549,200 |
| Accounts | 26,309 |
| Intergovernmental | 454,400 |
| Accrued interest | 1,878 |
| Prepayments. | 33,156 |
| Materials and supplies inventory | 96,416 |
| Capital assets: | |
| Land | 2,298,712 |
| Depreciable capital assets, net | 4,457,172 |
| Total capital assets, net. | 6,755,884 |
| Total assets | 22,297,601 |
| Liabilities: | |
| Accounts payable | 131,148 |
| Contracts payable | 41,803 |
| Accrued wages and benefits | 1,800,205 |
| Pension obligation payable. | 532,777 |
| Intergovernmental payable | 86,947 |
| Deferred revenue | 8,636,010 |
| Long-term liabilities: | |
| Due within one year. | 298,696 |
| Due within more than one year | 1,602,307 |
| Total liabilities | 13,129,893 |
| Net Assets: | |
| Invested in capital assets, net of related debt. | 6,210,383 |
| Restricted for: | |
| Capital projects | 713,129 |
| Other purposes | 219,236 |
| Unrestricted | 2,024,960 |
| Total net assets | \$ 9,167,708 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MARLINGTON LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

| | Expenses | Program Revenues | | | Net (Expense) Revenue and Changes in Net Assets |
|--|----------------------|--------------------------------------|--|--|--|
| | | Charges for Services and Sales | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities |
| Governmental activities: | | | | | |
| Instruction: | | | | | |
| Regular | \$ 8,550,787 | \$ 102,203 | \$ 272,568 | \$ 65,175 | \$ (8,110,841) |
| Special | 2,139,134 | - | 493,214 | - | (1,645,920) |
| Vocational | 877,938 | - | 31,669 | - | (846,269) |
| Other | 763,832 | - | - | - | (763,832) |
| Support services: | | | | | |
| Pupil | 787,546 | - | 183,521 | - | (604,025) |
| Instructional staff | 681,039 | 3,236 | 21,591 | - | (656,212) |
| Board of education | 28,150 | - | - | - | (28,150) |
| Administration | 1,746,625 | - | 9,606 | - | (1,737,019) |
| Fiscal | 350,631 | - | - | - | (350,631) |
| Business | 214,952 | - | 6,744 | - | (208,208) |
| Operations and maintenance | 2,635,510 | 1,638 | 54,431 | - | (2,579,441) |
| Pupil transportation | 1,184,547 | - | 810 | - | (1,183,737) |
| Central | 17,434 | - | - | - | (17,434) |
| Operation of non-instructional services | 83,663 | - | 1,582 | - | (82,081) |
| Extracurricular activities | 823,179 | 471,900 | - | - | (351,279) |
| Food service operations | 766,280 | 506,363 | 268,788 | - | 8,871 |
| Interest and fiscal charges | 36,403 | - | - | - | (36,403) |
| Total governmental activities | \$ 21,687,650 | \$ 1,085,340 | \$ 1,344,524 | \$ 65,175 | (19,192,611) |

General Revenues:

| | |
|--|---------------------|
| Property taxes levied for: | |
| General purposes | 7,808,031 |
| Capital projects | 437,964 |
| Grants and entitlements not restricted to specific programs | 11,293,925 |
| Investment earnings | 34,607 |
| Miscellaneous | 126,158 |
| Total general revenues | 19,700,685 |
| Change in net assets | 508,074 |
| Net assets at beginning of year | 8,659,634 |
| Net assets at end of year | \$ 9,167,708 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MARLINGTON LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004

| | <u>General</u> | <u>Permanent Improvement</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--|----------------------|----------------------------------|---|---|
| Assets: | | | | |
| Equity in pooled cash and cash equivalents | \$ 2,543,439 | \$ 1,307,141 | \$ 1,158,826 | \$ 5,009,406 |
| Receivables: | | | | |
| Taxes | 9,083,734 | 465,466 | - | 9,549,200 |
| Accounts | 24,432 | - | 1,877 | 26,309 |
| Intergovernmental | 307,752 | - | 146,648 | 454,400 |
| Accrued interest | 1,878 | - | - | 1,878 |
| Interfund loan receivable | 922,298 | - | - | 922,298 |
| Prepayments | 31,892 | - | 1,264 | 33,156 |
| Materials and supplies inventory | 93,799 | - | 2,617 | 96,416 |
| Due from other funds | 179,050 | - | - | 179,050 |
| Restricted assets: | | | | |
| Equity in pooled cash and cash equivalents | 370,952 | - | - | 370,952 |
| Total assets. | <u>\$ 13,559,226</u> | <u>\$ 1,772,607</u> | <u>\$ 1,311,232</u> | <u>\$ 16,643,065</u> |
| Liabilities: | | | | |
| Accounts payable. | \$ 107,957 | \$ - | \$ 23,191 | \$ 131,148 |
| Contracts payable | - | 41,803 | - | \$ 41,803 |
| Accrued wages and benefits | 1,675,911 | - | 124,294 | 1,800,205 |
| Compensated absences payable | 169,337 | - | - | 169,337 |
| Interfund loan payable | - | 600,000 | 322,298 | 922,298 |
| Pension obligation payable. | 322,930 | - | 17,814 | 340,744 |
| Intergovernmental payable. | 80,368 | - | 6,579 | 86,947 |
| Due to other funds | - | - | 179,050 | 179,050 |
| Deferred revenue. | 8,805,614 | 432,146 | 84,594 | 9,322,354 |
| Total liabilities. | <u>11,162,117</u> | <u>1,073,949</u> | <u>757,820</u> | <u>12,993,886</u> |
| Fund Balances: | | | | |
| Reserved for encumbrances | 1,496,723 | 1,097,152 | 110,441 | 2,704,316 |
| Reserved for due from | 179,050 | - | - | 179,050 |
| Reserved for materials and supplies inventory | 93,799 | - | 2,617 | 96,416 |
| Reserved for prepayments | 31,892 | - | 1,264 | 33,156 |
| Reserved for property tax unavailable for appropriation | 587,750 | 33,320 | - | 621,070 |
| Reserved for textbooks. | 314,978 | - | - | 314,978 |
| Reserved for school bus purchases. | 55,974 | - | - | 55,974 |
| Unreserved, undesignated (deficit), reported in: | | | | |
| General fund | (363,057) | - | - | (363,057) |
| Special revenue funds. | - | - | 438,959 | 438,959 |
| Capital projects funds. | - | (431,814) | 131 | (431,683) |
| Total fund balances | <u>2,397,109</u> | <u>698,658</u> | <u>553,412</u> | <u>3,649,179</u> |
| Total liabilities and fund balances. | <u>\$ 13,559,226</u> | <u>\$ 1,772,607</u> | <u>\$ 1,311,232</u> | <u>\$ 16,643,065</u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MARLINGTON LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2004

| | | |
|--|------------|---------------------|
| Total governmental fund balances | | \$ 3,649,179 |
| <i>Amounts reported for governmental activities in the statement of net assets are different because:</i> | | |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. | | 6,755,884 |
| Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds. | | |
| Taxes | \$ 292,120 | |
| Intergovernmental | 392,346 | |
| Accrued interest | 1,878 | |
| Total | | 686,344 |
| Long-term liabilities, including capital lease obligations, are not due and payable in the current period and therefore are not reported in the funds. | | |
| Compensated absences | 1,186,165 | |
| Pension obligation payable | 192,033 | |
| Capital lease obligations | 545,501 | |
| Total | | (1,923,699) |
| Net assets of governmental activities | | \$ 9,167,708 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MARLINGTON LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

| | <u>General</u> | <u>Permanent Improvement</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|---|---------------------|----------------------------------|---|---|
| Revenues: | | | | |
| From local sources: | | | | |
| Taxes | \$ 7,788,601 | \$ 440,901 | \$ - | \$ 8,229,502 |
| Earnings on investments | 18,056 | 7,770 | 6,903 | 32,729 |
| Extracurricular | 66,609 | 195 | 364,663 | 431,467 |
| Charges for services. | - | - | 506,899 | 506,899 |
| Classroom materials and fees. | 80,320 | - | 21,563 | 101,883 |
| Other local revenues | 88,249 | - | 43,951 | 132,200 |
| Other revenue | 49,538 | - | 5,736 | 55,274 |
| Intergovernmental - state. | 11,257,566 | 56,935 | 436,794 | 11,751,295 |
| Intergovernmental - federal | - | - | 1,417,218 | 1,417,218 |
| Total revenue. | <u>19,348,939</u> | <u>505,801</u> | <u>2,803,727</u> | <u>22,658,467</u> |
| Expenditures: | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular. | 8,240,013 | - | 349,193 | 8,589,206 |
| Special | 1,639,446 | - | 506,687 | 2,146,133 |
| Vocational | 836,691 | - | 31,710 | 868,401 |
| Other | 763,545 | - | - | 763,545 |
| Support Services: | | | | |
| Pupil | 622,852 | - | 176,134 | 798,986 |
| Instructional staff. | 655,118 | - | 32,379 | 687,497 |
| Board of education | 28,150 | - | - | 28,150 |
| Administration | 1,713,087 | - | 11,777 | 1,724,864 |
| Fiscal | 357,355 | - | - | 357,355 |
| Business. | 188,998 | 25,389 | - | 214,387 |
| Operations and maintenance | 1,787,906 | 903,944 | 6,033 | 2,697,883 |
| Pupil transportation. | 1,195,541 | - | 92,702 | 1,288,243 |
| Central | 17,124 | - | 2,182 | 19,306 |
| Operation of non-instructional services. | 18,324 | - | 65,023 | 83,347 |
| Extracurricular activities | 413,001 | - | 437,989 | 850,990 |
| Food service operations. | - | - | 799,718 | 799,718 |
| Debt service: | | | | |
| Principal retirement | 55,334 | - | - | 55,334 |
| Interest and fiscal charges | 36,403 | - | - | 36,403 |
| Total expenditures | <u>18,568,888</u> | <u>929,333</u> | <u>2,511,527</u> | <u>22,009,748</u> |
| Excess of revenues over (under) expenditures. | 780,051 | (423,532) | 292,200 | 648,719 |
| Other financing sources (uses): | | | | |
| Transfers in. | - | - | 36,050 | 36,050 |
| Transfers out | (36,050) | - | - | (36,050) |
| Total other financing sources (uses). | <u>(36,050)</u> | <u>-</u> | <u>36,050</u> | <u>-</u> |
| Net change in fund balances. | 744,001 | (423,532) | 328,250 | 648,719 |
| Fund balances at beginning of year | 1,651,128 | 1,122,190 | 227,587 | 3,000,905 |
| Increase (decrease) in reserve for inventory | 1,980 | - | (2,425) | (445) |
| Fund balances at end of year. | <u>\$ 2,397,109</u> | <u>\$ 698,658</u> | <u>\$ 553,412</u> | <u>\$ 3,649,179</u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MARLINGTON LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

| | | |
|--|-----------|------------------------------|
| Net change in fund balances - total governmental funds | \$ | 648,719 |
| <i>Amounts reported for governmental activities in the statement of activities are different because:</i> | | |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays (\$632,674) exceeds depreciation expense (\$339,835) in the current period. | | 292,839 |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. | | (462,743) |
| Governmental funds report expenditures for inventory when purchased, however, in the statement of activities, they are reported as expenses when consumed. | | (445) |
| Principal payments on capital leases are reported as expenditures in governmental funds but the repayment reduces long-term liabilities on the statement of net assets. | | 55,334 |
| Some expenses reported in the statement of activities, such as compensated absences and pension obligations, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. | | <u>(25,630)</u> |
| Change in net assets of governmental activities | \$ | <u><u>508,074</u></u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MARLINGTON LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance with Final Budget Positive (Negative)</u> |
|---|-------------------------|--------------------|---------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues: | | | | |
| From local sources: | | | | |
| Taxes | \$ 7,871,626 | \$ 7,122,648 | \$ 7,687,501 | \$ 564,853 |
| Tuition | 4,045 | 3,660 | 3,950 | 290 |
| Earnings on investments | 21,853 | 19,774 | 21,342 | 1,568 |
| Extracurricular activities | 72,678 | 65,763 | 70,978 | 5,215 |
| Classroom materials and fees | 82,204 | 74,382 | 80,281 | 5,899 |
| Other local revenues | 118,324 | 107,066 | 115,556 | 8,490 |
| Other revenues | 50,725 | 45,898 | 49,538 | 3,640 |
| Intergovernmental - state | 11,527,200 | 10,430,398 | 11,257,566 | 827,168 |
| Total revenue | <u>19,748,655</u> | <u>17,869,589</u> | <u>19,286,712</u> | <u>1,417,123</u> |
| Expenditures: | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 7,675,930 | 8,402,719 | 8,464,468 | (61,749) |
| Special | 1,770,226 | 1,937,840 | 1,952,080 | (14,240) |
| Vocational | 733,277 | 802,707 | 808,606 | (5,899) |
| Other | 701,178 | 767,568 | 773,209 | (5,641) |
| Support Services: | | | | |
| Pupil | 548,957 | 600,935 | 605,351 | (4,416) |
| Instructional staff | 689,274 | 754,537 | 760,082 | (5,545) |
| Board of education | 30,989 | 33,924 | 34,173 | (249) |
| Administration | 1,563,862 | 1,711,936 | 1,724,516 | (12,580) |
| Fiscal | 333,442 | 365,014 | 367,696 | (2,682) |
| Business | 254,755 | 278,877 | 280,926 | (2,049) |
| Operations and maintenance | 1,883,202 | 2,061,513 | 2,076,662 | (15,149) |
| Pupil transportation | 1,143,403 | 1,251,666 | 1,260,864 | (9,198) |
| Central | 37,304 | 40,836 | 41,136 | (300) |
| Operation of non-instructional services | 14,743 | 16,139 | 16,258 | (119) |
| Extracurricular activities | 457,398 | 500,706 | 504,386 | (3,680) |
| Facilities acquisition and construction | 1,224 | 1,340 | 1,350 | (10) |
| Total expenditures | <u>17,839,164</u> | <u>19,528,257</u> | <u>19,671,763</u> | <u>(143,506)</u> |
| Excess of revenues over (under) expenditures | <u>1,909,491</u> | <u>(1,658,668)</u> | <u>(385,051)</u> | <u>1,273,617</u> |
| Other financing sources (uses): | | | | |
| Refund of prior year expenditure | 729 | 660 | 712 | 52 |
| Transfers in | 281,009 | 254,271 | 274,436 | 20,165 |
| Transfers out | (281,561) | (308,221) | (310,486) | (2,265) |
| Advances in | 989,258 | 895,131 | 966,118 | 70,987 |
| Advances out | (936,666) | (1,025,354) | (1,032,889) | (7,535) |
| Total other financing sources (uses) | <u>52,769</u> | <u>(183,513)</u> | <u>(102,109)</u> | <u>81,404</u> |
| Net change in fund balance | 1,962,260 | (1,842,181) | (487,160) | 1,355,021 |
| Fund balance at beginning of year | 767,258 | 767,258 | 767,258 | - |
| Prior year encumbrances appropriated | 1,020,684 | 1,020,684 | 1,020,684 | - |
| Fund balance at end of year | \$ 3,750,202 | \$ (54,239) | \$ 1,300,782 | \$ 1,355,021 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MARLINGTON LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2004

| | Private-Purpose Trust | |
|---|----------------------------------|---------------|
| | Scholarship | Agency |
| Assets: | | |
| Equity in pooled cash and cash equivalents | \$ 100,193 | \$ 78,543 |
| Investments | 500,000 | - |
| Accounts receivable | - | 5 |
| | 600,193 | 78,548 |
| | 600,193 | 78,548 |
| Liabilities: | | |
| Accounts payable. | - | \$ 6,450 |
| Due to students. | - | 72,098 |
| | - | 78,548 |
| | - | 78,548 |
| Net Assets: | | |
| Held in trust for scholarships. | 600,193 | |
| | 600,193 | |
| Total net assets | \$ 600,193 | |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MARLINGTON LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

| | <u>Private-Purpose Trust</u> | |
|--|----------------------------------|--|
| | <u>Scholarship</u> | |
| Additions: | | |
| Interest | \$ 7,915 | |
| Gifts and contributions | 1,300 | |
| | <hr/> | |
| Total additions | 9,215 | |
| | <hr/> | |
| Deductions: | | |
| Scholarships awarded | 17,800 | |
| | <hr/> | |
| Change in net assets | (8,585) | |
| Net assets at beginning of year | <hr/> 608,778 | |
| Net assets at end of year | <hr/> <u>\$ 600,193</u> | |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**MARLINGTON LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

The Marlington Local School District (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 a local district as defined by Section 3311.03 of the Ohio Revised Code. The District is governed by a five-member board of education (the Board) elected by its citizens, which is responsible for the provision of public education to residents of the District.

The District ranks as the 182nd largest by total enrollment among the 613 public school districts in the State. The District employs 142 non-certified and 190 certified employees to provide services to approximately 2,746 students in grades K through 12 and various community groups.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. The District's significant accounting policies are described below.

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units." The reporting entity is composed of the primary government, component units and other organizations that are included to ensure that the basic financial statements of the District are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, foods service, and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organizations' governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organizations resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; (4) or the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Based upon the application of this criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government). The following organizations are described due to their relationship to the District:

**MARLINGTON LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

JOINTLY GOVERNED ORGANIZATIONS

Stark/Portage Area Computer Consortium (SPARCC)

SPARCC is a jointly governed organization created as a regional council of governments pursuant to State Statutes made up of public school districts and county boards of education from Stark, Portage, and Carroll Counties. The primary function of SPARCC is to provide data processing services to its member districts with the major emphasis being placed on accounting, inventory control and payroll services. Other areas of service provided by SPARCC include student scheduling, registration, grade reporting, and test scoring. Each member district pays an annual fee for the services provided by SPARCC.

SPARCC is governed by a board of directors comprised of each Superintendent within the Consortium. The Stark County Educational Service Center serves as the fiscal agent of the Consortium and receives funding from the State Department of Education. Each district has one vote in all matters and each member district's control over budgeting and financing of SPARCC is limited to its voting authority and any representation it may have on the board of directors. The continued existence of SPARCC is not dependent on the District's continued participation and no equity interest exists. Financial information can be obtained by writing the Stark/Portage Area Computer Consortium, 2100 38th Street NW, Canton, Ohio 44709.

Stark County Tax Incentive Review Council (SCTIRC)

SCTIRC is a jointly governed organization, created as a regional council of governments pursuant to State statutes. SCTIRC has 24 members, consisting of three members appointed by the County Commissioners, four members appointed by municipal corporations, ten members appointed by township trustees, one member from the county auditor's office and six members appointed by boards of education located within the enterprise zones of Stark County. The SCTIRC reviews and evaluates the performance of each Enterprise Zone Agreement. This body is advisory in nature and cannot directly impact an existing Enterprise Zone Agreement; however, the council can make written recommendations to the legislative authority that approved the agreement. There is no cost associated with being a member of this Council. The continued existence of the SCTIRC is not dependent upon the District's continued participation and no measurable equity interest exists.

Alliance Tax Incentive Review Council (ATIRC)

ATIRC is a jointly governed organization, created as a regional council of governments pursuant to State statutes. ATIRC has various members, including the District's Superintendent. The ATIRC reviews and evaluates the performance of Enterprise Zone Agreements. This body is advisory in nature and cannot directly impact an existing Enterprise Zone Agreements; however, the council can make written recommendations to the legislative authority that approved the agreement. There is no cost associated with being a member of the ATIRC. The continued existence of the ATIRC is not dependent upon the District's continued participation and no measurable equity interest exists. The ATIRC meets annually.

**MARLINGTON LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

PUBLIC ENTITY RISK POOLS

Risk Sharing Pool

The Stark County Schools Council of Governments Health Benefit Plan (Consortium) is a shared risk pool created pursuant to State statute for the purpose of administering health care benefits. The consortium is governed by an assembly which consists of one representative from each participating school district (usually the superintendent or designee). The assembly elects officers for one year terms to serve on the Board of Directors. The assembly exercises control over the operation of the Consortium. All Consortium revenues are generated from charges for services.

Insurance Purchasing Pool

The Stark County Schools Council of Governments Workers' Compensation Group Rating Plan has created a group insurance pool for the purpose of creating a group rating plan for workers' compensation. The group is comprised of the treasurers of the members who have been appointed by the respective governing body of each member.

The intent of the pool is to achieve a reduced rate for the District by the group with other members of the group. The injury claim history of all participating members are used to calculate a common rate for the group. An annual fee is paid to Comp Management, Inc. to administer the group and to manage any injury claims. Premium savings created by the group are prorated to each member annually based on its payroll percent of the group.

B. Fund Accounting

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

GOVERNMENTAL FUNDS

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

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

Permanent Improvement Fund - To account for financial resources to be used for the acquisition, construction, or improvement of capital facilities.

Other governmental funds of the District are used to account for (a) for food service operations, (b) for grants and other resources whose use is restricted to a particular purpose; and for (c) debt service requirements on District debt issues.

**MARLINGTON LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

PROPRIETARY FUNDS

Proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector. The District has no proprietary funds.

FIDUCIARY FUNDS

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

C. Basis of Presentation and Measurement Focus

Government-wide Financial Statements - The statement of net assets 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.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the District. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include amounts paid by the recipient of goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues of the District.

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the District are included on the statement of net assets.

Fund Financial Statements - Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column, and all nonmajor funds are aggregated into one column. Fiduciary funds are reported by fund type.

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

**MARLINGTON LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

The private-purpose trust fund is reported using the economic resources measurement focus. Agency funds do not report a measurement focus as they do not report operations.

D. Basis of Accounting

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

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

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 6). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

Deferred Revenue - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of June 30, 2004, but which were levied to finance fiscal year 2005 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities received during the year is reported in the fund financial statements as expenditure with a like amount reported as intergovernmental revenue.

**MARLINGTON LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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

E. Budgets

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The Certificate of Estimated Resources and the Appropriations Resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated. The legal level of budgetary control has been established at the fund level for all funds. Any budgetary modifications at this level may only be made by resolution of the Board of Education. Although the legal level of budgetary control was established at the fund level of expenditures, the District has elected to present the general fund's budgetary statement comparison at the fund and function level of expenditures.

Tax Budget:

Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The express purpose of this budget document is to reflect the need for existing (or increased tax rates). By no later than January 20, the Board-adopted budget is filed with Stark County Budget Commission for rate determination.

Estimated Resources:

By April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commissions' certificate of estimated resources, which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered cash balances from the preceding year. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statements reflect the amounts from the certificate of amended resources that was in effect at the time the final appropriations were passed by the Board of Education.

**MARLINGTON LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Appropriations:

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

The Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources. During the year, all supplemental appropriations were legally enacted.

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

Lapsing of Appropriations:

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

F. Cash and Investments

To improve cash management, cash received by the District is pooled in a central bank account. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" and "Investments" on the basic financial statements.

During fiscal year 2004, investments were limited to overnight repurchase agreements, nonnegotiable certificates of deposit, U.S. government money market mutual funds, U.S. Treasury bills and notes and investments in the State Treasury Asset Reserve of Ohio (STAR Ohio). Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts, such as repurchase agreements and nonnegotiable certificates of deposit, are reported at cost.

The District has invested funds in STAR Ohio during fiscal 2004. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2004.

**MARLINGTON LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Under existing Ohio statutes all investment earning are assigned to the general fund unless statutorily required to be credited to a specific fund. The Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2004 amounted to \$18,056, which includes \$2,364 assigned from other District funds.

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

An analysis of the District's investment account at fiscal year-end is provided in Note 4.

G. Inventory

On government-wide and fund financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used. Inventories are accounted for using the purchase method on the fund financial statements and using the consumption method on the government-wide financial statements.

Inventory consists of expendable supplies held for consumption, donated food and purchased food.

H. Capital Assets

General capital assets are assets that result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$5,000. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

| <u>Description</u> | <u>Governmental Activities Estimated Lives</u> |
|----------------------------|--|
| Land improvements | 5 years |
| Buildings and improvements | 50 years |
| Furniture and equipment | 5 - 20 years |
| Vehicles | 10 years |

**MARLINGTON LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

I. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables" and long-term advances subject to repayment are reported as "due to/from other funds". These amounts are eliminated in the governmental activities column on the statement of net assets.

J. Compensated Absences

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

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at the balance sheet date by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees age 50 or greater with at least 10 years of service and all employees with 15 years of service at any age were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and severance payments has been calculated using pay rates in effect at June 30, 2004, and reduced to the maximum payment allowed by labor contract and/or statute, plus any additional salary related payments.

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

In the governmental fund financial statements, compensated absences are reported to the extent that a known liability for an employee's retirement/resignation has been incurred by fiscal year-end. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees are paid.

K. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, compensated absences, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year.

**MARLINGTON LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

L. Fund Balance Reserves

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, long-term advances made to other funds, prepayments, materials and supplies inventory, property taxes unavailable for appropriation, textbooks and school bus purchases. The reserve for property taxes unavailable for appropriation represents taxes recognized as revenue under GAAP but not available for appropriation under state statute.

M. Net Assets

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

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

N. Prepayments

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These items are reported as assets using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed. At fiscal year-end, because prepayments are not available to finance future governmental fund expenditures, the fund balance is reserved on the fund financial statements by an amount equal to the carrying value of the asset.

O. Estimates

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

P. Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets include the amount required by state statute to be set-aside for textbooks/instruction materials and school bus purchases. See Note 17 for additional information regarding set-asides.

**MARLINGTON LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Q. Interfund Activity

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

Interfund activity between governmental funds are eliminated in the statement of activities.

R. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal 2004.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

Deficit Fund Balances

Fund balances at June 30, 2004 included the following individual fund deficits:

| | <u>Deficit</u> |
|------------------------------------|----------------|
| <u>Nonmajor Governmental Funds</u> | |
| District Managed Student Activity | \$125,760 |
| Public School Preschool | 35,555 |
| DPIA | 5,225 |
| Migrant Grant | 3,529 |
| Title VI-B | 49,811 |
| Title I | 14,230 |
| Title VI | 3,610 |
| Miscellaneous Federal Grants | 402 |

These funds complied with Ohio state law, which does not permit a cash basis deficit at year-end. The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit balance in the District Managed Student Activities fund is the result of a long-term, advance payable due to the general fund. The remaining deficit fund balances result from adjustments for accrued liabilities.

**MARLINGTON LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS

The District maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the basic financial statements as "Equity in Pooled Cash and Cash Equivalents" and "Investments". Statutes require the classification of monies held by the District into three categories.

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

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

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

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

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

1. United States Treasury Notes, Bills, Bonds, or 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;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2% and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasury Asset Reserve of Ohio (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed 180 days in an amount not the exceed 25% of the interim monies available for investment at any one time; and

**MARLINGTON LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)

8. Under limited circumstances, corporate debt instrument rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

The following information classifies deposits and investments by categories of custodial credit risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments (Including Repurchase Agreements) and Reverse Repurchase Agreements".

Deposits: At fiscal year-end, the carrying amount of the District's deposits was \$1,636,094 and the bank balance was \$1,831,053. Both of these amounts include \$1,000,000 in nonnegotiable certificates of deposit. Of the bank balance:

1. \$200,000 was covered by federal depository insurance; and
2. \$1,631,053 was uninsured and unregistered as defined by GASB although it was secured by collateral held by third party trustees, pursuant to section 135.181 Ohio Revised Code, in collateralized pools securing all public funds on deposit with specific depository institutions; these securities not being in the name of the District. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the District to a successful claim by the FDIC.

Collateral is required for demand deposits and certificates of deposit in excess of all deposits not covered by federal depository insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies, obligations of the State of Ohio and its municipalities, and obligations of the other states. Obligations pledged to secure deposits must be delivered to a bank other than the institution in which the deposit is made. Written custodial agreements are required.

Investments: The District's investments are categorized below to give an indication of the level of custodial credit risk assumed by the entity at fiscal year-end. Category 1 includes investments that are insured or registered or securities held by the District. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department, but not in the District's name. Investments in STAR Ohio and U.S. government money market mutual funds are not categorized as they are not evidenced by securities that exist in physical or book entry form.

**MARLINGTON LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)

| | Category 3 | Reported Amount | Fair Value |
|--|---------------|--------------------|---------------|
| Repurchase agreements | \$ 3,285,457 | \$ 3,285,457 | \$ 3,285,457 |
| U.S. Treasury bills and notes | 500,000 | 500,000 | 500,000 |
| Total | \$ 3,785,457 | | |
| Investment in STAR Ohio | | 637,470 | 637,470 |
| U.S. government money market mutual fund | | 43 | 43 |
| Total investments | | \$ 4,422,970 | \$ 4,422,970 |

The classification of cash and cash equivalents and investments on the basic financial statements is based on criteria set forth in GASB Statement No. 9. A reconciliation between the classifications of cash and investments on the basic financial statements and the classification per GASB Statement No. 3 is as follows:

| | Cash and Cash Equivalents/Deposits | Investments |
|--|---------------------------------------|--------------|
| GASB Statement No. 9 | \$ 5,559,064 | \$ 500,000 |
| Investments of the cash management pool: | | |
| Repurchase agreements | (3,285,457) | 3,285,457 |
| Investment in STAR Ohio | (637,470) | 637,470 |
| U.S. government money market mutual fund | (43) | 43 |
| GASB Statement No. 3 | \$ 1,636,094 | \$ 4,422,970 |

NOTE 5 - INTERFUND TRANSACTIONS

- A. Interfund loans receivable/payable consisted of the following at June 30, 2004, as reported on the fund statement:

| Receivable Fund | Payable Fund | Amount |
|-----------------|-----------------------------|------------|
| General | Nonmajor Governmental funds | \$ 322,298 |
| General | Permanent Improvement | 600,000 |

The primary purpose of the interfund balances is to cover costs in specific funds where revenues were not received by June 30. These interfund balances will be repaid once the anticipated revenues are received.

**MARLINGTON LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 5 - INTERFUND TRANSACTIONS - (Continued)

- B.** Interfund transfers for the year ended June 30, 2004, consisted of the following, as reported on the fund statements:

| | <u>Amount</u> |
|---------------------------------|---------------|
| Transfers to general fund from: | |
| Nonmajor governmental funds | \$ 36,050 |

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

- C.** Amounts "due from" and "due to" other funds for the year ended June 30, 2004, consisted of the following, as reported on the fund statements:

| | <u>Amount</u> |
|-----------------------------|---------------|
| Due to general fund from: | |
| Nonmajor Governmental funds | \$ 179,050 |

This amount represents monies borrowed by the District Managed Student Activity special revenue fund from the general fund. The amount is being repaid over a number of years.

NOTE 6 - 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 tax collections are received by the District in the second half of the fiscal year. Second half tax distributions occur in the first half of the following fiscal year.

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2004 represents collections of calendar year 2003 taxes. Real property taxes received in calendar year 2004 were levied after April 1, 2003, on the assessed value listed as of January 1, 2003, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2004 represents collections of calendar year 2003 taxes. Public utility real and tangible personal property taxes received in calendar year 2004 became a lien December 31, 2002, were levied after April 1, 2003 and are collected in 2004 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

**MARLINGTON LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 6 - PROPERTY TAXES - (Continued)

Tangible personal property tax revenue received during calendar 2004 (other than public utility property) represents the collection of 2004 taxes. Tangible personal property taxes received in calendar year 2004 were levied after April 1, 2004, on the value as of December 31, 2003. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

The District receives property taxes from Stark County. The County Auditor periodically advances to the District the portion of the taxes collected. Second-half real property tax payments collected by the County Auditor by June 30, 2004, are available to finance fiscal year 2004 operations. The amount available as an advance at June 30, 2004 was \$587,750 in the general fund and \$33,320 in the Permanent Improvement fund. The amount that was available as advance at June 30, 2003 was \$486,650 in the general fund and \$40,050 in the Permanent Improvement fund.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2004 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

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

The assessed values upon which the fiscal year 2004 taxes were collected are:

| | 2003 Second | | 2004 First | |
|--|-----------------------|----------------|-----------------------|----------------|
| | Half Collections | | Half Collections | |
| | <u>Amount</u> | <u>Percent</u> | <u>Amount</u> | <u>Percent</u> |
| Agricultural/Residential and Other Real Estate | \$ 249,548,850 | 86.09 | \$ 277,952,660 | 87.76 |
| Public Utility Personal | 9,081,530 | 3.13 | 9,048,630 | 2.86 |
| Tangible Personal Property | <u>31,261,220</u> | <u>10.78</u> | <u>29,711,405</u> | <u>9.38</u> |
| Total | <u>\$ 289,891,600</u> | <u>100.00</u> | <u>\$ 316,712,695</u> | <u>100.00</u> |
| Tax rate per \$1,000 of assessed valuation for: | | | | |
| Operations | \$ 46.40 | | \$ 54.90 | |
| Permanent improvements | 2.00 | | 2.00 | |

**MARLINGTON LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 7 - RECEIVABLES

Receivables at June 30, 2004 consisted of taxes, accounts (billings for user charged services and student fees), accrued interest, intergovernmental grants and entitlements, and intergovernmental receipts for tax increment financing payments due to the District. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of Federal funds. A summary of the principal items of receivables reported on the statement of net assets follows:

Governmental Activities

| | |
|-------------------|--------------------------|
| Taxes | \$ 9,549,200 |
| Accounts | 26,309 |
| Accrued interest | 1,878 |
| Intergovernmental | <u>454,400</u> |
| Total | <u>\$ 10,031,787</u> |

Receivables have been disaggregated on the face of the basic finance statements. All receivables are expected to be collected within the subsequent year.

NOTE 8 - CAPITALIZED LEASES - LESSEE DISCLOSURE

On October 12, 2000, the District entered into a lease-purchase agreement for financing the constructing, improving, furnishing, equipping and eventual acquisition of the Athletic Complex on October 12, 2001.

This lease meets the criteria of a capital lease as defined by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee at the conclusion of the lease term. At inception, the leases were accounted for as a capital outlay expenditure and other financing source in the general fund. Capital lease payments have been reclassified and are reflected as debt service expenditures in the fund financial statements and as a reduction of the lease liability in the government-wide financial statements. These expenditures are reflected as program/function expenditures on a budgetary basis.

Capital assets acquired by lease have been capitalized in the statement of net assets in the amount of \$725,000, which is equal to the present value of the future minimum lease payments as of the date of inception. A corresponding liability was recorded in the statement of net assets. Principal payments in the 2004 fiscal year totaled \$55,334. This amount is reflected as debt service principal retirement in the general fund.

**MARLINGTON LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 8 - CAPITALIZED LEASES - LESSEE DISCLOSURE - (Continued)

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the future minimum lease payments as of June 30, 2004.

| Year Ending <u>June 30</u> | <u>Amount</u> |
|---|-------------------|
| 2005 | \$ 91,737 |
| 2006 | 91,737 |
| 2007 | 91,737 |
| 2008 | 91,737 |
| 2009 | 91,737 |
| 2010 - 2012 | <u>229,342</u> |
| Total minimum lease payment | 688,027 |
| Less: amount representing interest | <u>(142,526)</u> |
| Present value of minimum lease payments | <u>\$ 545,501</u> |

NOTE 9 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2004, was as follows:

| | <u>Balance June 30, 2003</u> | <u>Additions</u> | <u>Deductions</u> | <u>Balance June 30, 2004</u> |
|---|----------------------------------|-------------------|-------------------|----------------------------------|
| Governmental Activities | | | | |
| <i>Capital assets, not being depreciated:</i> | | | | |
| Land | \$ 2,298,712 | \$ - | \$ - | \$ 2,298,712 |
| Total capital assets, not being depreciated | <u>2,298,712</u> | <u>-</u> | <u>-</u> | <u>2,298,712</u> |
| <i>Capital assets, being depreciated:</i> | | | | |
| Land improvements | 1,275,715 | - | - | 1,275,715 |
| Buildings and improvements | 7,846,953 | 291,437 | - | 8,138,390 |
| Furniture and equipment | 1,324,685 | 162,371 | - | 1,487,056 |
| Vehicles | <u>2,114,187</u> | <u>178,866</u> | <u>-</u> | <u>2,293,053</u> |
| Total capital assets, being depreciated | <u>12,561,540</u> | <u>632,674</u> | <u>-</u> | <u>13,194,214</u> |
| <i>Less: accumulated depreciation</i> | | | | |
| Land improvements | (1,237,365) | (19,675) | - | (1,257,040) |
| Buildings and improvements | (5,081,746) | (145,761) | - | (5,227,507) |
| Furniture and equipment | (909,912) | (36,408) | - | (946,320) |
| Vehicles | <u>(1,168,184)</u> | <u>(137,991)</u> | <u>-</u> | <u>(1,306,175)</u> |
| Total accumulated depreciation | <u>(8,397,207)</u> | <u>(339,835)</u> | <u>-</u> | <u>(8,737,042)</u> |
| Governmental activities capital assets, net | <u>\$ 6,463,045</u> | <u>\$ 292,839</u> | <u>\$ -</u> | <u>\$ 6,755,884</u> |

**MARLINGTON LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 9 - CAPITAL ASSETS - (Continued)

Depreciation expense was charged to governmental functions as follows:

| | |
|----------------------------|-------------------|
| <u>Instruction:</u> | |
| Regular | \$ 155,916 |
| Vocational | 12,115 |
| <u>Support Services:</u> | |
| Instructional staff | 1,082 |
| Administration | 1,630 |
| Business | 14,988 |
| Operations and maintenance | 9,350 |
| Pupil transportation | 137,607 |
| Central | 310 |
| Extracurricular activities | 2,713 |
| Food service operations | <u>4,124</u> |
| Total depreciation expense | <u>\$ 339,835</u> |

NOTE 10 - LONG-TERM OBLIGATIONS

During the fiscal year 2004, the following changes occurred in governmental activities long-term obligations:

| | Balance | | | Balance | Amount |
|---------------------------|---------------------|-------------------|---------------------|----------------------|-------------------|
| | <u>July 1, 2003</u> | <u>Increase</u> | <u>Decrease</u> | <u>June 30, 2004</u> | <u>Due in</u> |
| | | | | | <u>One Year</u> |
| Compensated absences | \$ 1,234,051 | \$ 286,518 | \$ (165,067) | \$ 1,355,502 | \$ 239,808 |
| Capital lease obligations | <u>600,835</u> | <u>-</u> | <u>(55,334)</u> | <u>545,501</u> | <u>58,888</u> |
| Total | <u>\$ 1,834,886</u> | <u>\$ 286,518</u> | <u>\$ (220,401)</u> | <u>\$ 1,901,003</u> | <u>\$ 298,696</u> |

The capital lease obligation is further described in Note 8. Compensated absences will be paid from the fund from which the employee is paid.

NOTE 11 - OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws. Classified employees earn five to twenty days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time. Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Upon retirement, payment is made to certified and classified employees for one-fourth of accrued, but unused sick leave credit up to a maximum 55 and 50 days, respectively.

**MARLINGTON LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 11 - OTHER EMPLOYEE BENEFITS - (Continued)

B. Insurance Benefits

The District provides life insurance and accidental death and dismemberment insurance to most employees through Stark County Council of Governments Health Benefits Program. Coverage in the amount of \$50,000 and \$25,000 are provided to all certified and classified employees, respectively.

C. Special Termination Benefit Payable

The District approved an Early Retirement Incentive Plan (ERIP) for its certified employees, which runs from July 1, 2002 through July 31, 2005. Employees retiring from the District and meeting the retirement eligibility requirements of STRS shall receive a one-time bonus of \$15,000 payable the January following the employee's retirement. As of June 30, 2004, a total of \$75,000 is the liability for this ERIP for employees who took advantage of the ERIP as of fiscal year-end.

At June 30, 2004, classified employees also have an ERIP in place. Employees retiring from the District under this plan and meeting the retirement eligibility requirements of SERS shall receive a one-time bonus of \$5,000. As of June 30, 2004, no employees took advantage of this ERIP.

NOTE 12 - RISK MANAGEMENT

A. Comprehensive

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions; injuries to employees and natural disasters. During fiscal year 2004, the District contracted with private carriers for real property, building contents and vehicles. Vehicle policies include liability coverage for bodily injury and property damage. Real property and contents are 90% coinsured.

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

B. Employee Health Benefits

The District has contracted with Stark County Schools Council of Government (a shared risk pool) (Note 2) to provide employee medical/surgical benefits. Rates are set through an annual calculation process. The District pays a monthly contribution which is placed in a common fund from which claim payments are made for all participating districts. The District's Board of Education pays a portion of the monthly premium.

Claims are paid for all participants regardless of claims flow. Upon termination, all District claims would be paid without regard to the District's account balance. The Directors have the right to hold monies for an exiting district subsequent to the settlement of all expenses and claims.

**MARLINGTON LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 12 - RISK MANAGEMENT - (Continued)

C. Workers' Compensation

The District participates in the Stark County Schools Council of Governments Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 2). The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating districts is calculated as one experience and a common premium rate is applied to all districts in the GRP.

Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performances is compared to the overall savings percent of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "Equity Pooling Fund" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to districts that can meet the GRP's selection criteria. The firm of Comp Management, Inc. provides administrative, cost control and actuarial services to the GRP.

NOTE 13 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State Statute Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476, or by calling (614) 222-5853.

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2004, 9.09% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17% of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The District's required contributions to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$336,533, \$319,673, and \$366,516, respectively; 38% has been contributed for fiscal year 2004 and 100% for the fiscal years 2003 and 2002. \$209,604, represents the unpaid contribution for fiscal year 2004.

**MARLINGTON LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

B. State Teachers Retirement System

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771, or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal years 2004 and 2003, 13% of annual covered salary was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The District's required contributions to STRS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$1,376,751, \$1,307,381, and \$1,196,940, respectively; 80% has been contributed for fiscal year 2004 and 100% for the fiscal years 2003 and 2002. \$270,876 represents the unpaid contribution for fiscal year 2004. Contributions to the DC and Combined Plans for fiscal 2004 were \$12,964 made by the District and \$26,427 made by plan members.

**MARLINGTON LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by SERS or STRS have an option to choose Social Security or SERS/STRS. As of June 30, 2004, certain members of the Board of Education have elected Social Security. The District's liability is 6.20 percent of wages paid.

NOTE 14 - POSTEMPLOYMENT BENEFITS

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

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For this fiscal year, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve fund. For the District, this amount equaled \$98,339 during fiscal 2004.

STRS pays health care benefits from the Health Care Reserve fund. The balance in the Health Care Reserve fund was \$3.1 billion at June 30, 2004. For the fiscal year ended June 30, 2004, net health care costs paid by STRS were \$268.739 million and STRS had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

For this fiscal year, employer contributions to fund health care benefits were 4.91% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay has been established at \$25,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150% of annual health care expenses, before premium deduction. Gross expenses for health care at June 30, 2004 were \$223.444 million and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million and SERS had approximately 62,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$167,313 during the 2004 fiscal year.

**MARLINGTON LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts and disbursements.

The Statement of Revenue, Expenditures, and Changes in Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to a reservation of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis).

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the general fund is as follows:

Net Change in Fund Balance

| | <u>General Fund</u> |
|---|---------------------|
| Budget basis | \$ (487,160) |
| Net adjustment for revenue accruals | 62,227 |
| Net adjustment for expenditure accruals | (510,734) |
| Net adjustment for other sources/uses | 66,059 |
| Adjustment for encumbrances | <u>1,613,609</u> |
| GAAP basis | <u>\$ 744,001</u> |

NOTE 16 - CONTINGENCIES

A. Grants

The District receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the District. However in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the District.

**MARLINGTON LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 16 - CONTINGENCIES - (Continued)

B. Litigation

The District is not a party to legal proceedings that would have a material effect on the financial condition of the District.

C. State School Funding Decision

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the state's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school funding plan is unconstitutional.

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

NOTE 17 - STATUTORY RESERVES

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

The following cash basis information describes the change in the year-end set-aside amounts for textbooks and capital acquisition. Disclosure of this information is required by State statute.

| | <u>Textbooks/ Instructional Materials</u> | <u>Capital Acquisition</u> |
|--|---|--------------------------------|
| Set-aside cash balance as of June 30, 2003 | \$ 212,142 | \$ - |
| Current year set-aside requirement | 389,940 | 389,940 |
| Current year offsets | - | (447,631) |
| Qualifying disbursements | <u>(287,104)</u> | <u>(501,981)</u> |
| Total | <u>\$ 314,978</u> | <u>\$ (559,672)</u> |
| Balance carried forward to FY 2005 | <u>\$ 314,978</u> | <u>\$ -</u> |

Although the District had offsets and qualifying disbursements during the year that reduced the set-aside amounts below zero for the capital acquisition reserve, this extra amount may not be used to reduce the set-aside requirement for future years. The negative amount is therefore not presented as being carried forward to the next fiscal year.

In addition, the District has received \$55,974 from the State of Ohio that is restricted for school bus purchases.

**MARLINGTON LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 17 - STATUTORY RESERVES - (Continued)

A schedule of the restricted assets at June 30, 2004 follows:

| | |
|---|-------------------|
| Amount restricted for textbooks/instructional materials | \$ 314,978 |
| Amount restricted for school bus purchase | <u>55,974</u> |
| Total restricted assets | <u>\$ 370,952</u> |

**MARLINGTON LOCAL SCHOOL DISTRICT
STARK COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2004**

| Federal Grantor/ Pass Through Grantor/ Program Title | Pass Through Entity Number | Federal CFDA Number | Receipts | Non-Cash Receipts | Expenditures | Non-Cash Expenditures |
|---|--|---------------------------|-------------------------------------|----------------------|------------------------------|--------------------------|
| U.S. DEPARTMENT OF AGRICULTURE | | | | | | |
| <i>Passed through the Ohio Department of Education:</i> | | | | | | |
| Child Nutrition Cluster: Food Distribution Program | Not Applicable | 10.550 | | \$91,726 | | \$91,726 |
| School Breakfast Program | Not Applicable | 10.553 | \$6,385 | | \$6,385 | |
| National School Lunch Program | Not Applicable | 10.555 | 158,870 | | 158,870 | |
| Total U.S. Department of Agriculture - Child Nutrition Cluster | | | <u>165,255</u> | <u>91,726</u> | <u>165,255</u> | <u>91,726</u> |
| U.S. DEPARTMENT OF EDUCATION | | | | | | |
| <i>Passed through the Ohio Department of Education:</i> | | | | | | |
| Special Education Grants to States | 049882-6BSF-2003 049882-6BSF-2004 | 84.027 | 197,687 294,315 492,002 | | 9,832 290,083 299,915 | |
| Title I Grants to Local Educational Agencies | 049882-C1S1-2003 049882-C1S1-2004 | 84.010 | 179,699 295,205 474,904 | | 51,460 277,174 328,634 | |
| Migrant Education State Grant Program | 049882-MGS1-2003 049882-MGS1-2004 | 84.011 | 28,746 14,631 43,377 | | 34,095 4,277 38,372 | |
| Innovative Education Program Strategies | 049882-C2S1-2002 049882-C2S1-2003 049882-C2S1-2004 | 84.298 | 9,773 11,002 17,270 38,045 | | 4,537 17,268 21,805 | |
| Demonstration Projects to Ensure Students with Disabilities Receive a Higher Education | 049882-AVS1-2004 | 84.333 | 50 | | 50 | |
| Educational Technology State Grants | 049882-TJS1-2003 049882-TJS1-2004 | 84.318 | 5,787 8,491 14,278 | | 8,120 8,120 | |
| Safe and Drug-Free Schools and Communities State Grants | 049882-DRS1-2003 049882-DRS1-2004 | 84.186 | 10,087 12,103 22,190 | | 12,103 12,103 | |
| English Language Acquisition Grants | 049882-T3S1-2004 | 84.365 | 10,912 10,106 21,018 | | 8,976 8,976 | |
| Improving Teacher Quality State Grants | 049882-TRS1-2003 049882-TRS1-2004 | 84.367 | 86,287 95,568 181,855 | | 22,686 104,969 127,655 | |
| School Renovation Grants | 049882-ATS4-2002 | 84.352 | | | 9,742 | |
| Total U.S. Department of Education | | | <u>1,287,719</u> | | <u>855,372</u> | |
| U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES | | | | | | |
| <i>Passed through the Ohio Department of Mental Retardation and Developmental Disabilities:</i> | | | | | | |
| Medicaid Assistance Program | Not Applicable | 93.778 | 30,184 | | 27,987 | |
| Totals | | | <u>\$1,483,158</u> | <u>\$91,726</u> | <u>\$1,048,614</u> | <u>\$91,726</u> |

The accompanying notes to this schedule are an integral part of this schedule.

**MARLINGTON LOCAL SCHOOL DISTRICT
STARK COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2004**

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – CHILD NUTRITION CLUSTER

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

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



**Auditor of State
Betty Montgomery**

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

Marlington Local School District
Stark County
10320 Moulin Avenue
Alliance, Ohio 44601

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Marlington Local School District, Stark County, Ohio, (the District) as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements and have issued our report thereon dated April 22, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatement caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider material weaknesses.

In a separate letter to the District's management dated April 22, 2005, we reported other matters involving internal control over financial reporting that we did not deem reportable conditions.

Compliance

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

In a separate letter to the District's management dated April 22, 2005, we reported an other matter related to noncompliance we deemed immaterial.

Marlington Local School District
Stark County
Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Required by *Government Auditing Standards*
Page 2

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

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

April 22, 2005



Auditor of State Betty Montgomery

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

Marlington Local School District
Stark County
10320 Moulin Avenue
Alliance, Ohio 44601

To the Board of Education:

Compliance

We have audited the compliance of Marlington Local School District, Stark County, Ohio, (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to each of its major federal programs for the year ended June 30, 2004. The summary of auditor's results section of the accompanying Schedule of Findings identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the Marlington Local School District complied, in all material respects, with the requirements referred to above that apply to each of its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

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

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

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

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

April 22, 2005

**MARLINGTON LOCAL SCHOOL DISTRICT
STARK COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2004**

1. SUMMARY OF AUDITOR'S RESULTS

| | | |
|---------------------|--|--|
| <i>(d)(1)(i)</i> | Type of Financial Statement Opinion | Unqualified |
| <i>(d)(1)(ii)</i> | Were there any material control weakness conditions reported at the financial statement level (GAGAS)? | No |
| <i>(d)(1)(ii)</i> | Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)? | No |
| <i>(d)(1)(iii)</i> | Was there any reported material non-compliance at the financial statement level (GAGAS)? | No |
| <i>(d)(1)(iv)</i> | Were there any material internal control weakness conditions reported for major federal programs? | No |
| <i>(d)(1)(iv)</i> | Were there any other reportable internal control weakness conditions reported for major federal programs? | No |
| <i>(d)(1)(v)</i> | Type of Major Programs' Compliance Opinion | Unqualified |
| <i>(d)(1)(vi)</i> | Are there any reportable findings under § .510? | No |
| <i>(d)(1)(vii)</i> | Major Programs (list): | Nutrition Cluster- CFDA 10.550, 10.553 and 10.555 Grants to Local Educational Agencies (ESEA Title I) - CFDA 84.010 |
| <i>(d)(1)(viii)</i> | Dollar Threshold: Type A\B Programs | Type A: > \$ 300,000 Type B: all others |
| <i>(d)(1)(ix)</i> | Low Risk Auditee? | No |

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None



**Auditor of State
Betty Montgomery**

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MARLINGTON LOCAL SCHOOL DISTRICT

STARK 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
JUNE 28, 2005**