



**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, 2003, 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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, 2003, 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.

As described in Note 3, during the year ended June 30, 2003, the District implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. As described in Note 9, the District increased its capitalization threshold for capital assets from \$500 to \$5,000 during the year ended June 30, 2003.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 25, 2004 of 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. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's discussion and analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to form opinions on the financial statements that collectively comprise the District's basic financial statements. The Schedule of Receipts and Expenditures of Federal Awards 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 Schedule of Receipts and Expenditures of Federal Awards 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

March 25, 2004

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
UNAUDITED

The discussion and analysis of the Marlington 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, 2003. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2003 are as follows:

- In total, net assets of governmental activities increased \$33,280 which represents a 0.39% increase from 2002.
- General revenues accounted for \$17,946,994 in revenue or 89.39% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$2,130,337 or 10.61% of total revenues of \$20,077,331.
- The District had \$20,044,051 in expenses related to governmental activities; only \$2,130,337 of these expenses were offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$17,946,994 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 \$17,619,347 in revenues and other financing sources and \$17,351,693 in expenditures. During fiscal 2003, the general fund's fund balance increased \$254,480 from \$1,396,648 to \$1,651,128.
- The District's other major governmental fund the permanent improvement fund had \$215,503 in revenues and \$111,241 in expenditures. During fiscal 2003, the permanent improvement fund's fund balance increased \$104,262 from \$1,017,928 to \$1,122,190.

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 nonmajor 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, 2003
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 2003?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets* and *liabilities* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the 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.

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major governmental funds begin 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.

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, 2003
UNAUDITED

The District as a Whole

Recall that the Statement of Net Assets provides the perspective of the District as a whole. This is the first year for government-wide financial statements using the full accrual basis of accounting, therefore a comparison with prior years is not available. A comparative analysis will be provided in future years when prior year information is available.

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

	Net Assets
	Governmental Activities 2003
	2003
<u>Assets</u>	
Current and other assets	\$ 14,385,367
Capital assets	6,463,045
Total assets	20,848,412
<u>Liabilities</u>	
Current liabilities	10,353,892
Long-term liabilities	1,834,886
Total liabilities	12,188,778
<u>Net Assets</u>	
Invested in capital assets, net of related debt	5,862,210
Restricted	1,232,140
Unrestricted	1,565,284
Total net assets	\$ 8,659,634

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2003, the District's assets exceeded liabilities by \$8,659,634. At year-end, unrestricted net assets were \$1,565,284.

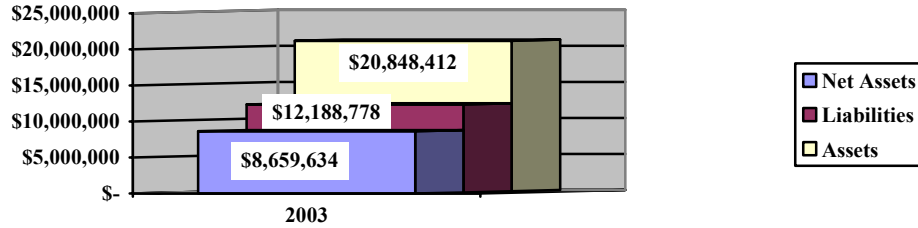
At year-end, capital assets represented 31.00% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment, and vehicles. The amount invested in capital assets, net of related debt to acquire the assets at June 30, 2003, was \$5,862,210. These 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, \$1,232,140, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$1,565,284 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, 2003
UNAUDITED

Governmental Activities



The table below shows the change in net assets for fiscal year 2003. Since this is the first year the District has prepared government-wide financial statements using the full accrual basis of accounting, revenue and expense comparisons to fiscal year 2002 are not available. A comparative analysis will be provided in future years when prior year information is available.

Change in Net Assets

	Governmental Activities <u>2003</u>
<u>Revenues</u>	
Program revenues:	
Charges for services and sales	\$ 1,121,498
Operating grants and contributions	1,008,839
General revenues:	
Property taxes	7,309,295
Grants and entitlements	10,498,119
Investment earnings	74,256
Gain on sale of capital assets	24,181
Other	<u>41,143</u>
Total revenues	<u>20,077,331</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
UNAUDITED

Change in Net Assets

	Governmental Activities <u>2003</u>
<u>Expenses</u>	
Program expenses:	
Instruction:	
Regular	8,366,714
Special	1,890,472
Vocational	942,538
Other	676,191
Support services:	
Pupil	869,176
Instructional staff	570,502
Board of education	26,932
Administration	1,568,811
Fiscal	319,588
Business	213,987
Operations and maintenance	1,790,429
Pupil transportation	1,079,605
Central	24,572
Operations of non-instructional services	10,577
Food service operations	788,230
Extracurricular activities	861,054
Interest and fiscal charges	<u>44,673</u>
Total expenses	<u>20,044,051</u>
Increase in net assets	<u>\$ 33,280</u>

Governmental Activities

Net assets of the District's governmental activities increased by \$33,280. Total governmental expenses of \$20,044,051 were offset by program revenues of \$2,130,337 and general revenues of \$17,946,994. Program revenues supported 10.63% 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 88.69% of total governmental revenue. Real estate property is reappraised every six years.

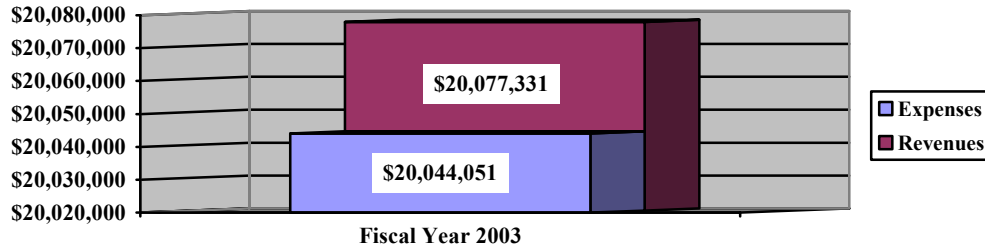
The District's financial condition has remained static in recent years, primarily due to increased financial support from the State. Future increases in State funding are projected to be more inflationary rather than the significant increases seen over the past several years, the District is projecting 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, 2003
UNAUDITED

The graph below presents the District's governmental activities revenue and expenses for fiscal year 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. Comparisons to 2002 have not been presented since they are not available.

Governmental Activities

	Total Cost of Services 2003	Net Cost of Services 2003
Program expenses		
Instruction:		
Regular	\$ 8,366,714	\$ 7,952,581
Special	1,890,472	1,486,833
Vocational	942,538	915,871
Other	676,191	676,125
Support services:		
Pupil	869,176	710,150
Instructional staff	570,502	556,718
Board of education	26,932	26,932
Administration	1,568,811	1,556,594
Fiscal	319,588	319,327
Business	213,987	203,863
Operations and maintenance	1,790,429	1,785,659
Pupil transportation	1,079,605	1,077,407
Central	24,572	24,572
Operations of non-instructional services	10,577	7,175
Food service operations	788,230	40,219
Extracurricular activities	861,054	529,015
Interest and fiscal charges	44,673	44,673
Total	<u>\$ 20,044,051</u>	<u>\$ 17,913,714</u>

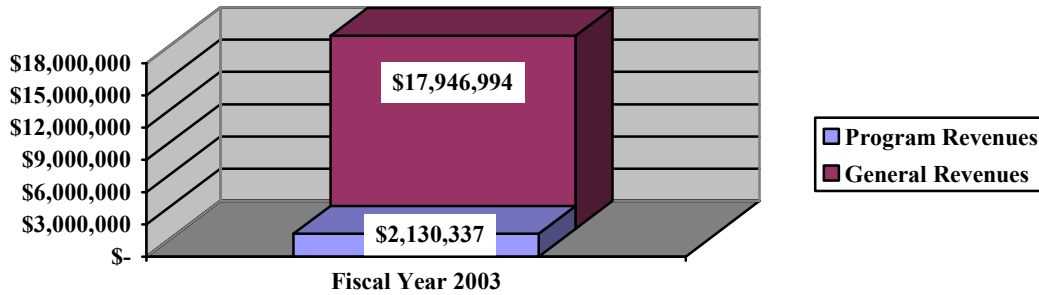
**MARLINGTON LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
UNAUDITED

The dependence upon tax and other general revenues for governmental activities is apparent, 92.90% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 89.37%. 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 year 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 \$3,000,905, which is lower than last year's total of \$3,202,644. The June 30, 2002 fund balances have been restated as described in Note 3.A to the basic financial statements. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2003 and 2002.

	Fund Balance <u>June 30, 2003</u>	Restated Fund Balance <u>June 30, 2002</u>	Increase <u>(Decrease)</u>
General	\$ 1,651,128	\$ 1,396,648	\$ 254,480
Permanent improvement	1,122,190	1,017,928	104,262
Other Governmental	<u>227,587</u>	<u>788,068</u>	<u>(560,481)</u>
Total	<u>\$ 3,000,905</u>	<u>\$ 3,202,644</u>	<u>\$ (201,739)</u>

General Fund

The District's general fund, fund balance increased by \$254,480 (after a restatement to the June 30, 2002, fund balance which is detailed in Note 3.A. to the basic financial statement). The increase in fund balance can be attributed to an increase in intergovernmental revenue which increased \$253,284. 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, 2003
UNAUDITED

	<u>2003</u>	Restated <u>2002</u>	<u>Percentage</u>
	<u>Amount</u>	<u>Amount</u>	<u>Change</u>
<u>Revenues</u>			
Taxes	\$ 6,809,411	\$ 6,959,237	(2.15)%
Tuition and fees	205,589	96,301	113.49%
Earnings on investments	34,545	49,259	(29.87)%
Intergovernmental	10,441,972	10,188,688	2.49%
Other revenues	<u>103,649</u>	<u>125,352</u>	(17.31)%
Total	<u>\$ 17,595,166</u>	<u>\$ 17,418,837</u>	1.01%
<u>Expenditures</u>			
Instruction	\$ 10,689,273	\$ 10,174,247	5.06%
Support services	6,112,111	5,945,973	2.79%
Operation of non-instructional services	7,873	14,157	(44.39)%
Extracurricular activities	467,626	517,777	(9.69)%
Facilities acquisition and construction	4,452	3,778	17.84%
Debt service	<u>70,358</u>	<u>8,887</u>	691.70%
Total	<u>\$ 17,351,693</u>	<u>\$ 16,664,819</u>	4.12%

Permanent Improvement Fund

The District's permanent improvement fund, fund balance increased by \$104,262 (after a restatement to the June 30, 2002, fund balance which is detailed in Note 3.A. to the basic financial statement). The District was able to increase the permanent improvement fund balance through the control of expenditures.

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 2003, the District amended its general fund budget numerous times. For the general fund, final budgeted revenues and other financing sources were \$17,913,055, which was less than the original budgeted revenues estimate of \$18,682,453. Actual revenues and other financing sources for fiscal 2003 was \$17,913,055.

General fund final appropriations (appropriated expenditures plus other financing uses) of \$19,544,611 were higher than the original budgeted appropriations estimate of \$15,215,087, because of increased salaries and benefits and the cost of goods purchased. The actual budget basis expenditures and other financing uses for fiscal year 2003 totaled \$19,544,611.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
UNAUDITED

Capital Assets and Debt Administration

Capital Assets

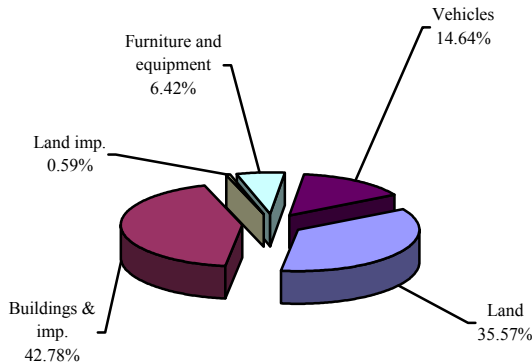
At the end of fiscal 2003, the District had \$6,463,045 invested in land, land improvements, buildings and improvements, furniture and equipment, and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal 2003 balances compared to 2002:

**Capital Assets at June 30
(Net of Depreciation)**

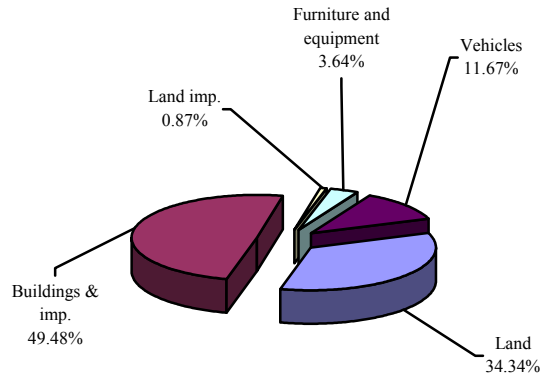
	Governmental Activities	
	2003	2002
Land	\$ 2,298,712	\$ 2,298,712
Land improvements	38,350	58,358
Building and improvements	2,765,207	3,311,264
Furniture and equipment	414,773	243,700
Vehicles	946,003	781,165
Total	\$ 6,463,045	\$ 6,693,199

The District acquired \$295,205 in new vehicles and added \$218,476 in furniture and equipment during fiscal 2003. Total additions to capital assets for 2003 were \$528,875. The overall decrease in capital assets of \$230,154 is primarily due to the recording of \$759,029 in depreciation expense for fiscal 2003, for additional information, see note 9.

**Capital Assets - Governmental Activities
2003**



**Capital Assets - Governmental Activities
2002**



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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
UNAUDITED

Debt Administration

At June 30, 2003, the District had no general obligation bonds or loans outstanding. The District has a capital lease in the amount of \$600,835, for additional information, see note 8.

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 community passed an 8.5 mil 5 year operating levy in May, 2003. This was the first new operating money since 1990. In addition the district has 2 other 5 year operating levies 8.5 mil passed February 1990 renewed last in November 1999 and a 5.7 mil 5 year operating levy passed as an emergency levy last renewed in November 2000. The district will continue to be on the ballot 4 out of 5 years to continue the current funding; 3 operating and 1 permanent improvement levy.

Several significant legislative and judicial actions have occurred that will have a major impact on our School District. The Ohio Supreme Court ruled in March 1997 that the State of Ohio was operating an unconstitutional educational system, one that was neither "adequate" nor "equitable." The State has not yet developed a school-funding plan that has been deemed acceptable by the Court, and ultimately resolution still seems to be some time in the future. There is a concern that the State may not have the ability to fully fund the previously approved subsidies for primary and secondary education in the State budget. Currently Marlington Local Schools is receiving parity aid. Parity aid has been phased in over a 5 year period and is to reach full funding in FY 2006. Then parity aid expires in the law. This will amount to a loss of \$1,297,295 in FY 2007. This will cause a need for additional local levies if the funding formula is not changed in the next biennial State budget.

Another challenge facing the District is the need to update its facilities to streamline operations and to enhance learning space design for students. The Board placed 2 bond levies on the ballot in calendar 2002, to raise the local share of the Ohio School Facilities Commission (OSFC) to become part of the Expedited Local Partnership Program (ELPP). Both of these bond levies were defeated. The Board chose to wait until our share of the OSFC monies becomes available. The District was awarded a total of \$100,000 in Emergency Repair Program (ERP) for roof repair at the Middle School.

The District has committed itself to educational and financial excellence for many years. The High School received an Excellent standing and the Auditor of State has given unqualified audit opinions. The District is committed to living within its financial means, and working with the community it serves in order to attain adequate resources to support the educational program.

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 the District Treasurer, 10320 Moulin Avenue NE, Alliance, Ohio, 44601-9797.

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

STATEMENT OF NET ASSETS
JUNE 30, 2003

	<u>Governmental Activities</u>
Assets:	
Equity in pooled cash and cash equivalents.	\$ 4,275,593
Receivables:	
Taxes	9,013,495
Accounts	64,410
Intergovernmental	891,599
Accrued interest	4,240
Prepayments.	18,593
Materials and supplies inventory	117,437
Capital assets:	
Land	2,298,712
Depreciable capital assets, net	4,164,333
Total capital assets	<u>6,463,045</u>
 Total assets	 <u>20,848,412</u>
 Liabilities:	
Accounts payable	65,645
Contracts payable.	37,284
Accrued wages and benefits	1,579,197
Pension obligation payable.	386,296
Intergovernmental payable	73,348
Deferred revenue	8,212,122
Long-term liabilities:	
Due within one year.	126,597
Due within more than one year	<u>1,708,289</u>
 Total liabilities	 <u>12,188,778</u>
 Net Assets:	
Invested in capital assets, net of related debt.	5,862,210
Restricted for:	
Capital projects	1,141,345
Other purposes	90,795
Unrestricted	<u>1,565,284</u>
 Total net assets	 <u>\$ 8,659,634</u>

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, 2003

	Expenses	Program Revenues		Net (Expense)
		Charges for Services and Sales	Operating Grants and Contributions	Revenue and Changes in Net Assets
				Governmental Activities
Governmental activities:				
Instruction:				
Regular	\$ 8,366,714	\$ 297,692	\$ 116,441	\$ (7,952,581)
Special	1,890,472	-	403,639	(1,486,833)
Vocational	942,538	-	26,667	(915,871)
Other	676,191	-	66	(676,125)
Support services:				
Pupil	869,176	-	159,026	(710,150)
Instructional staff	570,502	-	13,784	(556,718)
Board of education	26,932	-	-	(26,932)
Administration	1,568,811	-	12,217	(1,556,594)
Fiscal	319,588	-	261	(319,327)
Business	213,987	-	10,124	(203,863)
Operations and maintenance	1,790,429	1,100	3,670	(1,785,659)
Pupil transportation	1,079,605	-	2,198	(1,077,407)
Central	24,572	-	-	(24,572)
Operation of non-instructional services	10,577	-	3,402	(7,175)
Extracurricular activities	861,054	332,039	-	(529,015)
Food service operations	788,230	490,667	257,344	(40,219)
Interest and fiscal charges	44,673	-	-	(44,673)
Total governmental activities	\$ 20,044,051	\$ 1,121,498	\$ 1,008,839	(17,913,714)

General Revenues:

Property taxes levied for:	
General purposes	7,309,295
Grants and entitlements not restricted to specific programs	10,498,119
Investment earnings	74,256
Gain on sale of capital assets	24,181
Miscellaneous	41,143
Total general revenues	17,946,994
Change in net assets	33,280
Net assets at beginning of year	8,626,354
Net assets at end of year	\$ 8,659,634

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2003

	<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	\$ 1,575,800	\$ 1,132,809	\$ 1,354,842	\$ 4,063,451
Receivables:				
Taxes	8,497,856	515,639	-	9,013,495
Accounts	60,363	-	4,047	64,410
Intergovernmental	318,241	-	573,358	891,599
Accrued interest	4,240	-	-	4,240
Interfund loan receivable	855,702	-	-	855,702
Prepayments	17,756	-	837	18,593
Materials and supplies inventory	91,819	-	5,042	96,861
Due from other funds	179,050	-	-	179,050
Restricted assets:				
Equity in pooled cash and cash equivalents	212,142	-	-	212,142
Total assets.	<u>\$ 11,812,969</u>	<u>\$ 1,648,448</u>	<u>\$ 1,938,126</u>	<u>\$ 15,399,543</u>
Liabilities:				
Accounts payable.	\$ 24,129	\$ 13,385	\$ 28,131	\$ 65,645
Contracts payable.	-	37,284	-	37,284
Accrued wages and benefits	1,486,350	-	92,847	1,579,197
Compensated absences payable	31,065	-	-	31,065
Interfund loan payable	-	-	855,702	855,702
Pension obligation payable.	221,744	-	14,970	236,714
Intergovernmental payable.	68,152	-	5,196	73,348
Due to other funds	-	-	179,050	179,050
Deferred revenue.	8,330,401	475,589	534,643	9,340,633
Total liabilities.	<u>10,161,841</u>	<u>526,258</u>	<u>1,710,539</u>	<u>12,398,638</u>
Fund Balances:				
Reserved for encumbrances	991,852	375,225	239,421	1,606,498
Reserved for due from	179,050	-	-	179,050
Reserved for materials and supplies inventory	91,819	-	5,042	96,861
Reserved for prepayments.	17,756	-	837	18,593
Reserved for property tax unavailable for appropriation	486,650	40,050	-	526,700
Reserved for textbooks.	212,142	-	-	212,142
Unreserved, undesignated (deficit), reported in:				
General fund	(328,141)	-	-	(328,141)
Special revenue funds.	-	-	(19,591)	(19,591)
Capital projects funds.	-	706,915	1,878	708,793
Total fund balances	<u>1,651,128</u>	<u>1,122,190</u>	<u>227,587</u>	<u>3,000,905</u>
Total liabilities and fund balances.	<u>\$ 11,812,969</u>	<u>\$ 1,648,448</u>	<u>\$ 1,938,126</u>	<u>\$ 15,399,543</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, 2003

Total governmental fund balances		\$	3,000,905
<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.			6,463,045
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Taxes	\$	275,627	
Intergovernmental		<u>852,884</u>	
Total			1,128,511
Federally donated commodities are not reported in the funds.			20,576
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		1,202,986	
Pension obligation payable		149,582	
Capital lease payable		<u>600,835</u>	
Total			<u>(1,953,403)</u>
Net assets of governmental activities		\$	<u><u>8,659,634</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 BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	<u>General</u>	<u>Permanent Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
From local sources:				
Taxes	\$ 6,809,411	\$ 136,532	\$ 335,004	\$ 7,280,947
Tuition	125,599	-	-	125,599
Earnings on investments	34,545	22,749	16,962	74,256
Extracurricular	23,214	-	308,825	332,039
Charges for services.	-	-	490,667	490,667
Classroom materials and fees.	79,990	-	21,296	101,286
Other local revenues	79,625	75	33,272	112,972
Other revenue	810	-	4,792	5,602
Intergovernmental - state.	10,441,972	56,147	58,708	10,556,827
Intergovernmental - federal	-	-	714,467	714,467
Total revenue.	<u>17,595,166</u>	<u>215,503</u>	<u>1,983,993</u>	<u>19,794,662</u>
Expenditures:				
Current:				
Instruction:				
Regular.	7,670,707	-	256,545	7,927,252
Special	1,450,334	-	447,014	1,897,348
Vocational	895,636	-	26,534	922,170
Other	672,596	-	100	672,696
Support Services:				
Pupil	560,769	-	295,272	856,041
Instructional staff.	531,146	-	31,324	562,470
Board of education	26,932	-	-	26,932
Administration	1,522,070	-	14,863	1,536,933
Fiscal	321,927	-	220	322,147
Business.	184,201	32,862	10,218	227,281
Operations and maintenance	1,718,266	78,379	3,110	1,799,755
Pupil transportation.	1,222,228	-	1,856	1,224,084
Central	24,572	-	-	24,572
Operation of non-instructional services.	7,873	-	2,873	10,746
Extracurricular activities	467,626	-	403,439	871,065
Facilities acquisition and construction	4,452	-	-	4,452
Food service operations.	-	-	721,084	721,084
Debt service:				
Principal retirement	39,494	-	320,000	359,494
Interest and fiscal charges	30,864	-	15,064	45,928
Total expenditures	<u>17,351,693</u>	<u>111,241</u>	<u>2,549,516</u>	<u>20,012,450</u>
Excess of revenues over (under) expenditures.	<u>243,473</u>	<u>104,262</u>	<u>(565,523)</u>	<u>(217,788)</u>
Other financing sources (uses):				
Proceeds from sale of capital assets	24,181	-	-	24,181
Total other financing sources (uses).	<u>24,181</u>	<u>-</u>	<u>-</u>	<u>24,181</u>
Net change in fund balances.	267,654	104,262	(565,523)	(193,607)
Fund balances at beginning of year (restated)	1,396,648	1,017,928	788,068	3,202,644
Increase (decrease) in reserve for inventory	(13,174)	-	5,042	(8,132)
Fund balances at end of year.	<u>\$ 1,651,128</u>	<u>\$ 1,122,190</u>	<u>\$ 227,587</u>	<u>\$ 3,000,905</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, 2003

Net change in fund balances - total governmental funds	\$	(193,607)
<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 depreciation expense (\$759,029) exceeds capital outlay (\$528,875) in the current period.		(230,154)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		160,669
Donated commodities received and the related expense are not recorded in the funds.		20,570
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.		1,255
Governmental funds report expenditures for inventory when purchased, however, in the statement of activities, they are reported as expenses when consumed.		(8,132)
Principal payments on bonds and capital leases are reported as expenditures in governmental funds but the repayment reduces long-term liabilities in the statement of net assets.		359,494
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>(76,815)</u>
Change in net assets of governmental activities	\$	<u>33,280</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT IN REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	<u>Budgeted Amounts</u>			Variance with Final Budget Over (Under)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Taxes	\$ 6,793,288	\$ 6,513,521	\$ 6,513,521	\$ -
Tuition	101,392	97,216	97,216	-
Earnings on investments	45,047	43,192	43,192	-
Extracurricular activities	32,297	30,967	30,967	-
Classroom materials and fees	83,426	79,990	79,990	-
Other local revenues	85,238	81,728	81,728	-
Other revenues	845	810	810	-
Intergovernmental - state	10,890,473	10,441,972	10,441,972	-
Intergovernmental - federal	-	-	-	-
Total revenue	<u>18,032,006</u>	<u>17,289,396</u>	<u>17,289,396</u>	<u>-</u>
Expenditures:				
Current:				
Instruction:				
Regular	6,127,197	7,870,720	7,870,720	-
Special	1,363,547	1,751,550	1,751,550	-
Vocational	695,397	893,275	893,275	-
Other	563,004	723,210	723,210	-
Support Services:				
Pupil	449,020	576,791	576,791	-
Instructional staff	477,444	613,303	613,303	-
Board of education	24,600	31,600	31,600	-
Administration	1,226,007	1,574,873	1,574,873	-
Fiscal	289,659	372,083	372,083	-
Business	203,327	261,185	261,185	-
Operations and maintenance	1,511,996	1,942,242	1,942,242	-
Pupil transportation	971,881	1,248,434	1,248,434	-
Central	19,240	24,715	24,715	-
Operation of non-instructional services	7,781	9,995	9,995	-
Extracurricular activities	433,733	557,154	557,154	-
Facilities acquisition and construction	7,635	9,807	9,807	-
Total expenditures	<u>14,371,468</u>	<u>18,460,937</u>	<u>18,460,937</u>	<u>-</u>
Excess of revenues over (under) expenditures	<u>3,660,538</u>	<u>(1,171,541)</u>	<u>(1,171,541)</u>	<u>-</u>
Other financing sources (uses):				
Refund of prior year expenditure	744	713	713	-
Transfers in	159,411	152,846	152,846	-
Transfers out	(118,988)	(152,846)	(152,846)	-
Advances in	480,396	460,612	460,612	-
Advances out	(724,631)	(930,828)	(930,828)	-
Proceeds from sale of capital assets	9,896	9,488	9,488	-
Total other financing sources (uses)	<u>(193,172)</u>	<u>(460,015)</u>	<u>(460,015)</u>	<u>-</u>
Net change in fund balance	3,467,366	(1,631,556)	(1,631,556)	-
Fund balance at beginning of year	994,872	994,872	994,872	-
Prior year encumbrances appropriated	1,403,942	1,403,942	1,403,942	-
Fund balance at end of year	<u>\$ 5,866,180</u>	<u>\$ 767,258</u>	<u>\$ 767,258</u>	<u>\$ -</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2003

	<u>Private Purpose Trust</u>	
	<u>Scholarship</u>	<u>Agency</u>
Assets:		
Equity in pooled cash and cash equivalents	\$ 108,778	\$ 73,173
Investments	500,000	-
Accounts receivable	-	40
	<hr/>	<hr/>
Total assets.	608,778	73,213
	<hr/>	<hr/>
Liabilities:		
Accounts payable.	-	11,675
Due to others.	-	597
Due to students.	-	60,941
	<hr/>	<hr/>
Total liabilities	-	\$ 73,213
	<hr/>	<hr/>
Net Assets:		
Held in trust for scholarships.	608,778	
	<hr/>	
Total net assets	\$ 608,778	
	<hr/>	

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, 2003

	Private Purpose Trust
	Scholarship
Additions:	
Interest	\$ 20,454
Gifts and contributions	5,785
Total additions	26,239
Deductions:	
Scholarships awarded	21,117
Change in net assets	5,122
Net assets at beginning of year	603,656
Net assets at end of year	\$ 608,778

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, 2003

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

The Marlinton 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 175th largest by total revenue among the 740 public and community school districts in the State. The District employs 132 non-certified and 195 certified employees to provide services to approximately 2,731 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". The reporting entity is composed of the primary government, component units and other organization 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, food 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, 2003

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 School 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, 2003

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 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, 2003

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, 2003

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, 2003, but which were levied to finance fiscal year 2004 operation, 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 used during the year is reported in the fund financial statements as expenditure with a like amount reported as intergovernmental revenue. Unused donated commodities at fiscal year-end are recorded as intergovernmental revenue.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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 Commission's certificate of estimated resources, which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that 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, 2003

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" on the basic financial statements.

During fiscal year 2003, 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 Asset Treasury 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, are reported at cost.

The District has invested funds in STAR Ohio during fiscal 2003. 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, 2003.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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 2003 amounted to \$34,545, which includes \$725 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 Treasurer'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 increased its capitalization threshold from \$500 to \$5,000 for its general capital assets during fiscal 2003. 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, 2003

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, 2003, 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, 2003

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, and textbooks. 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 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. 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, 2003

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 basis 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 2003.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Changes in Accounting Principles and Restatement of Fund Balance

For fiscal year 2003, the District has implemented GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments", GASB Statement No. 37, "Basic Financial Statements for State and Local Governments: Omnibus", GASB Statement No. 38, "Certain Financial Statement Note Disclosures", GASB Statement No. 41, "Budgetary Comparison Schedule - Perspective Differences", and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements". At June 30, 2002, there was no effect on fund balance as a result of implementing GASB Statements 37, 38 and 41.

GASB Statement No. 37 clarifies certain provisions of Statement No. 34, including the required content of the Management Discussion and Analysis, the classification of program revenues and the criteria for determining major funds. GASB Statement No. 38, modifies, establishes and rescinds certain financial statement note disclosures.

GASB Statement No. 41 allows the presentation of budgetary schedules as required supplementary information based on the fund, organization or program structure that the government uses for its legally adopted budget when significant budgetary perspective differences result in the school district not being able to present budgetary comparison for the general and each major special revenue fund.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

GASB No. 34 creates new basic financial statements for reporting on the District's financial activities. The basic financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

The government-wide financial statements show the District's programs for governmental activities. The beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at June 30, 2002, caused by fund reclassifications the conversion to the accrual basis of accounting.

Governmental Activities - Fund Reclassification and Restatement of Fund Balance - Certain funds have been reclassified to properly reflect their intended purpose in accordance with the Statement of GASB Statement No. 34. Certain funds previously reported as enterprise funds are now reported as nonmajor governmental funds. It was determined that GASB Interpretation No. 6 had an effect on fund balance as previously reported at June 30, 2002. The fund reclassifications and the implementation of GASB Interpretation No. 6 had the following effect on the District's governmental fund balances as previously reported:

	<u>General</u>	<u>Permanent Improvements</u>	<u>Nonmajor</u>	<u>Total</u>
Fund balance				
June 30, 2002	\$ 1,455,464	\$ 1,017,928	\$ 128,087	\$ 2,601,479
Fund reclassifications	-	-	659,981	659,981
Implementation of GASB				
Interpretation No. 6	<u>(58,816)</u>	<u>-</u>	<u>-</u>	<u>(58,816)</u>
Adjusted fund balance,				
June 30, 2002	<u>\$ 1,396,648</u>	<u>\$ 1,017,928</u>	<u>\$ 788,068</u>	<u>\$ 3,202,644</u>

The transition from governmental fund balance to net assets of the governmental activities is presented as follows:

	<u>Total</u>
Adjusted fund balance, June 30, 2002	\$ 3,202,644
GASB 34 adjustments:	
Long-term (deferred) assets	967,842
Capital assets	6,693,199
Long-term liabilities	(2,120,184)
Pension obligations	(115,892)
Accrued interest payable	<u>(1,255)</u>
Governmental activities	
net assets, June 30, 2002	<u>\$ 8,626,354</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

B. Deficit Fund Balances

Fund balances at June 30, 2003 included the following individual fund deficits:

	<u>Deficit</u>
<u>Nonmajor Governmental Funds</u>	
District Managed Student Activity	\$143,262
DPIA	5,066
Title VI-B	233,434
Title III	9,916
Title I	158,797
Title VI	18,498
Drug-Free Schools	10,087
Improving Teacher Quality	81,528

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.

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". 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

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
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 and Reserve Repurchase Agreements".

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

Deposits: At fiscal year-end, the carrying amount of the District's deposits was \$2,769,537 and the bank balance was \$3,267,156. Both of these amounts include \$3,000,000 in nonnegotiable certificates of deposit. Of the bank balance:

1. \$300,000 was covered by federal depository insurance; and
2. \$2,967,156 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.

	Category 3	Reported Amount	Fair Value
Repurchase agreements	\$ 1,056,869	\$ 1,056,869	\$ 1,056,869
U.S. Treasury bills and notes	500,000	500,000	500,000
Total	\$ 1,556,869		
Investment in STAR Ohio		631,095	631,095
U.S. government money market mutual fund		43	43
Total investments		\$ 2,188,007	\$ 2,188,007

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

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:

	<u>Cash and Cash Equivalents/Deposits</u>	<u>Investments</u>
GASB Statement No. 9	\$ 4,457,544	\$ 500,000
Investments of the cash management pool:		
Repurchase agreements	(1,056,869)	1,056,869
Investment in STAR Ohio	(631,095)	631,095
U.S. government money market mutual fund	(43)	43
GASB Statement No. 3	\$ 2,769,537	\$ 2,188,007

NOTE 5 - INTERFUND TRANSACTIONS

- A.** Interfund loans receivable/payable consisted of the following at June 30, 2003, as reported on the fund statement:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor governmental funds	\$ 855,702

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.

- B.** Amounts “due from” and “due to” other funds for the year ended June 30, 2003, 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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

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 2003 represents collections of calendar year 2002 taxes. Real property taxes received in calendar year 2003 were levied after April 1, 2002, on the assessed value listed as of January 1, 2002, 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 2003 represents collections of calendar year 2002 taxes. Public utility real and tangible personal property taxes received in calendar year 2003 became a lien December 31, 2001, were levied after April 1, 2002 and are collected in 2003 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.

Tangible personal property tax revenue received during calendar 2003 (other than public utility property) represents the collection of 2003 taxes. Tangible personal property taxes received in calendar year 2003 were levied after April 1, 2002, on the value as of December 31, 2002. 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, 2003, are available to finance fiscal year 2003 operations. The amount available as an advance at June 30, 2003 was \$486,650 in the general fund and \$40,050 in the Permanent Improvement fund. The amount that was available as advance at June 30, 2002 was \$190,760 in the general fund and \$15,710 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, 2003 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 6 - PROPERTY TAXES - (Continued)

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 2003 taxes were collected are:

	2002 Second Half Collections		2003 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential and Other Real Estate	\$ 236,121,390	84.90	\$ 249,548,850	86.09
Public Utility Personal	9,080,600	3.27	9,081,530	3.13
Tangible Personal Property	<u>32,907,263</u>	<u>11.83</u>	<u>31,261,220</u>	<u>10.78</u>
Total	<u>\$ 278,109,253</u>	<u>100.00</u>	<u>\$ 289,891,600</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation for:				
Operations	\$ 46.40		\$ 46.40	
Permanent improvements	2.00		2.00	

NOTE 7 - RECEIVABLES

Receivables at June 30, 2003 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

Property taxes	\$ 9,013,495
Accounts	64,410
Accrued interest	4,240
Intergovernmental	<u>891,599</u>
Total	<u>\$ 9,973,744</u>

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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 2003 fiscal year totaled \$39,494. This amount is reflected as debt service principal retirement in the general fund.

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the future minimum lease payments as of June 30, 2003.

<u>Year Ending June 30</u>	<u>Equipment</u>
2004	\$ 91,737
2005	91,737
2006	91,737
2007	91,737
2008	91,737
2009 - 2012	<u>321,079</u>
Total minimum lease payment	779,764
Less: amount representing interest	<u>(178,929)</u>
Present value of minimum lease payments	<u>\$ 600,835</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 9 - CAPITAL ASSETS

- A. The capital asset balances of the governmental activities have been restated due to a change in the District's capital asset policy (see Note 2.H. for detail) and for errors and omissions in capital assets previously reported:

	<u>Balance</u> <u>June 30, 2002</u>	<u>Adjustments</u>	<u>Restated Balance</u> <u>June 30, 2002</u>
Governmental Activities			
<i>Capital assets, not being depreciated:</i>			
Land	\$ 2,298,712	\$ -	\$ 2,298,712
Total capital assets, not being depreciated	2,298,712	-	2,298,712
<i>Capital assets, being depreciated:</i>			
Land improvements	1,299,886	(24,171)	1,275,715
Building and improvements	7,934,097	(102,338)	7,831,759
Furniture and equipment	4,215,801	(3,109,592)	1,106,209
Vehicles	1,947,681	112,657	2,060,338
Total capital assets, being depreciated	15,397,465	(3,123,444)	12,274,021
<i>Less: accumulated depreciation:</i>	-	(7,879,534)	(7,879,534)
Governmental activities capital assets, net	\$ 17,696,177	\$ (11,002,978)	\$ 6,693,199

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 9 - CAPITAL ASSETS - (Continued)

B. Capital asset activity for the fiscal year ended June 30, 2003, was as follows:

	<u>Restated Balance 07/01/02</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 06/30/03</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	7,831,759	15,194	-	7,846,953
Furniture and equipment	1,106,209	218,476	-	1,324,685
Vehicles	2,060,338	295,205	(241,356)	2,114,187
Total capital assets, being depreciated	<u>12,274,021</u>	<u>528,875</u>	<u>(241,356)</u>	<u>12,561,540</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(1,217,357)	(20,008)	-	(1,237,365)
Buildings and improvements	(4,520,495)	(561,251)	-	(5,081,746)
Furniture and equipment	(862,509)	(47,403)	-	(909,912)
Vehicles	(1,279,173)	(130,367)	241,356	(1,168,184)
Total accumulated depreciation	<u>(7,879,534)</u>	<u>(759,029)</u>	<u>241,356</u>	<u>(8,397,207)</u>
Governmental activities capital assets, net	<u>\$ 6,693,199</u>	<u>\$ (230,154)</u>	<u>\$ -</u>	<u>\$ 6,463,045</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:

Regular	\$ 568,506
Vocational	24,169

Support Services:

Instructional staff	468
Administration	6,294
Business	13,946
Operations and maintenance	992
Pupil transportation	136,901
Extracurricular activities	5,227
Food service operations	2,526

Total depreciation expense \$ 759,029

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 10 - LONG-TERM OBLIGATIONS

The balance of the District's governmental activities long-term obligations at June 30, 2002 has been restated. The compensated absences liability increased \$68,698 from \$1,139,892 to \$1,208,590 due to the implementation of GASB Interpretation No. 6, fund reclassifications described in Note 3.A. In addition, pension obligations of \$111,992 at June 30, 2002 are not reported as a component of governmental activities long-term obligations as they are paid within one year of fiscal year-end. Pension obligations are reported separately on the statement of net assets. The effect on the total governmental activities long-term obligations at July 1, 2002 was a decrease of \$43,294 from \$2,212,213 to \$2,168,919. During the fiscal year 2003, the following changes occurred in governmental activities long-term obligations:

	Restated			Balance June 30, 2003	Amount Due in One Year
	Balance July 1, 2002	Increase	Decrease		
Compensated absences	\$ 1,208,590	\$ 97,794	\$ (72,333)	\$ 1,234,051	\$ 71,263
Energy conservation bond	320,000	-	(320,000)	-	-
Capital lease obligations	<u>640,329</u>	<u>-</u>	<u>(39,494)</u>	<u>600,835</u>	<u>55,334</u>
Total	<u>\$ 2,168,919</u>	<u>\$ 97,794</u>	<u>\$ (431,827)</u>	<u>\$ 1,834,886</u>	<u>\$ 126,597</u>

The capital lease obligation will be paid from the general fund. Compensated absences will be paid from the fund from which the employee is paid.

During July 2000, the District issued \$400,000 in energy conservation bonds for the purpose of installations, modifications, and remodeling of school buildings to conserve energy. These bonds bear an interest rate of 5.38%. Payments of principal and interest relating to this liability are recorded as expenditures in the debt service fund. The entire balance of the energy conservation bonds were paid in fiscal 2003.

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.

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 11 - OTHER EMPLOYEE BENEFITS - (Continued)

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, 2003, a total of \$45,000 is the liability for this ERIP for employees who took advantage of the ERIP as of fiscal year-end.

At June 30, 2003, 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, 2003, 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 2003, 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.

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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

NOTE 12 - RISK MANAGEMENT - (Continued)

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 9% 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 2003, 8.17% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2002, 5.46% 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, 2003, 2002, and 2001 were \$319,673, \$366,516, and \$368,820, respectively; 52.94% has been contributed for fiscal year 2003 and 100% for the fiscal years 2002 and 2001. \$150,444 represents the unpaid contribution for fiscal year 2003.

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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

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. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. 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 9.3% 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 2003, 13% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2002, 9.5% 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 the DB Plan for the fiscal years ended June 30, 2003, 2002, and 2001 were \$1,307,381, \$1,196,940, and \$1,148,112, respectively; 85.73% has been contributed for fiscal year 2003 and 100% for the fiscal years 2002 and 2001. Contributions to the DC and Combined Plans for fiscal year 2003 were \$13,102 made by the District and \$22,476 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by SERS or STRS System have an option to choose Social Security or SERS/STRS. For fiscal year 2003, four members of the Board of Education elected social security. The Board's liability is 6.2% of wages paid.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

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 \$93,384 during fiscal 2003.

STRS pays health care benefits from the Health Care Reserve fund. The balance in the Health Care Reserve fund was \$3.011 billion at June 30, 2002 (the latest information available). For the fiscal year ended June 30, 2002 (the latest information available), net health care costs paid by STRS were \$354.697 million and STRS had 105,300 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. Members retiring on or after August 1, 1989, with less than 25 years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

For this fiscal year, employer contributions to fund health care benefits were 5.83% 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 2003, the minimum pay has been established at \$14,500. 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. Expenses for health care at June 30, 2003 were \$204.931 million and the target level was \$307.4 million. At June 30, 2003, SERS had net assets available for payment of health care benefits of \$303.6 million and SERS had approximately 50,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$178,121 during the 2003 fiscal year.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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 sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other 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	\$ (1,631,556)
Net adjustment for revenue accruals	305,770
Net adjustment for expenditure accruals	88,560
Net adjustment for other sources/uses	484,196
Adjustment for encumbrances	1,020,684
GAAP basis	\$ 267,654

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, 2003

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, 2002	\$ 121,903	\$ -
Current year set-aside requirement	371,408	371,408
Current year offsets	-	(524,990)
Qualifying disbursements	<u>(281,169)</u>	<u>(331,294)</u>
Total	<u>\$ 212,142</u>	<u>\$ (484,876)</u>
Balance carried forward to FY 2004	<u>\$ 212,142</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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

NOTE 17 - STATUTORY RESERVES - (Continued)

A schedule of the restricted assets at June 30, 2003 follows:

Amount restricted for textbooks/instructional materials	<u>\$ 212,142</u>
Total restricted assets	<u><u>\$ 212,142</u></u>

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**MARLINGTON LOCAL SCHOOL DISTRICT
STARK COUNTY**

**SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2003**

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	Not Applicable	10.550		\$73,372		\$73,372
School Breakfast Program	Not Applicable	10.553	\$4,857		\$4,857	
National School Lunch Program	Not Applicable	10.555	131,747		131,747	
Total U.S. Department of Agriculture - Child Nutrition Cluster			<u>136,604</u>	<u>73,372</u>	<u>136,604</u>	<u>73,372</u>
U.S. DEPARTMENT OF EDUCATION						
<i>Passed through the Ohio Department of Education:</i>						
Special Education Grants to States	049882-6BSF-2002 049882-6BSF-2003	84.027	140,826 55,249 196,075		153,869 244,450 398,319	
Title I Grants to Local Educational Agencies	049882-C1S1-2001 049882-C1S1-2002 049882-C1S1-2003	84.010	130,143 48,525 178,668		9,882 71,789 180,631 262,302	
Migrant Education State Grant Program	049882-MGS1-2001 049882-MGS1-2002 049882-MGS1-2003	84.011	20,096 6,912 27,008		3,511 30,174 1,565 35,250	
Innovative Education Program Strategies	049882-C2S1-2001 049882-C2S1-2002 049882-C2S1-2003	84.298	11,082 2,780 13,862		1,781 9,244 11,025	
Demonstration Projects to Ensure Students with Disabilities Receive a Higher Education	049882-AVS1-2003	84.333	50		50	
Educational Technology State Grants	049882-TJS1-2003	84.318	1,329		7,116	
Safe and Drug-Free Schools and Communities State Grants	049882-DRS1-2002 049882-DRS1-2003	84.186	8,148 2,214 10,362		12,301 12,301	
Improving Teacher Quality State Grants	049882-CRS1-2002 049882-TRS1-2003 049882-MSS1-2002	84.367	49,469 19,566 1,194 70,229		30,240 83,171 11,203 124,614	
School Renovation Grants	049882-ATS4-2002	84.352A	9,742			
Total U.S. Department of Education			<u>507,325</u>		<u>850,977</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	52,978		29,465	
Totals			<u>\$696,907</u>	<u>\$73,372</u>	<u>\$1,017,046</u>	<u>\$73,372</u>

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

**MARLINGTON LOCAL SCHOOL DISTRICT
STARK COUNTY**

**NOTES TO THE SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2003**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Receipts and Expenditures of Federal Awards (the Schedule) summarizes 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 COMPLIANCE AND ON
INTERNAL CONTROL 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 basic financial statements of Marlington Local School District, Stark County, Ohio, (the District) as of and for the year ended June 30, 2003, and have issued our report thereon dated March 25, 2004 wherein we noted the District adopted Governmental Accounting Standards Board Statement 34 and increased its capital asset capitalization threshold from \$500 to \$5,000. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

However, we noted certain immaterial instances of noncompliance that we have reported to management of the District in a separate letter dated March 25, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting 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 misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated March 25, 2004.

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

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

Betty Montgomery
Auditor of State

March 25, 2004



**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND 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 are applicable to each of its major federal programs for the year ended June 30, 2003. The District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003.

Internal Control Over Compliance

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

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www.auditor.state.oh.us

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over federal compliance that do not require inclusion in this report that we have reported to the management of the District in a separate letter date March 25, 2004.

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

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

Betty Montgomery
Auditor of State

March 25, 2004

**MARLINGTON LOCAL SCHOOL DISTRICT
STARK COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 §.505
JUNE 30, 2003**

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):	Special Education Cluster - CFDA #84.027, Improving Teacher Quality State Grants - CFDA #84.367, Medical Assistance Program – CFDA #93.778
<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
MAY 13, 2004**