

MARLINGTON LOCAL SCHOOL DISTRICT
INDEPENDENT AUDITOR'S REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2006



Mary Taylor, CPA
Auditor of State

Board of Education
Marlington Local School District
10320 Moulin Avenue NE
Alliance, Ohio 44601

We have reviewed the *Independent Auditor's Report* of the Marlington Local School District, Stark County, prepared by Varney, Fink & Associates, Inc., for the audit period July 1, 2005 through June 30, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

May 1, 2007

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**MARLINGTON LOCAL SCHOOL DISTRICT
INDEPENDENT AUDITOR'S REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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INDEPENDENT AUDITOR'S REPORT

Board of Education
Marlington Local School District
10320 Moulin Avenue, NE
Alliance, OH 44601

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Marlington Local School District (the District), as of and for the year ended June 30, 2006, 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 the District, as of June 30, 2006 and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 23, 2007 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We 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.

INDEPENDENT AUDITOR'S REPORT (continued)

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

Varney, Fink & Associates

VARNEY, FINK & ASSOCIATES, INC.
Certified Public Accountants

March 23, 2007

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

The management's 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, 2006. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2006 are as follows:

- In total, net assets of governmental activities increased \$1,239,196 which represents a 12.43% increase from 2005.
- General revenues accounted for \$21,615,640 in revenue or 87.08% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$3,207,530 or 12.92% of total revenues of \$24,823,170.
- The District had \$23,583,974 in expenses related to governmental activities; only \$3,207,530 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$21,615,640 were adequate to provide for these programs.
- The District's major governmental fund is the general fund. The general fund had \$21,419,264 in revenues and \$20,611,087 in expenditures and other financing uses. During fiscal year 2006, the general fund's fund balance increased \$808,177 from \$2,569,012 to \$3,379,849.

Using these Basic Financial Statements

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

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

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 2006?" The *Statement of Net Assets* and the *Statement of Activities* answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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 of non-instructional services, extracurricular activities, and food service operations.

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

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major governmental fund begins on page 9. Fund financial reports provide detailed information about the District's major fund. 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 fund is the general fund.

Governmental Funds

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

Reporting the District's Fiduciary Responsibilities

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

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 22-48 of this report.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

The District as a Whole

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

The table below provides a summary of the District's net assets for 2006 and 2005.

	Net Assets	
	Governmental Activities 2006	Governmental Activities 2005
<u>Assets</u>		
Current and other assets	\$ 16,006,238	\$ 16,131,930
Capital assets	8,024,787	7,639,595
Total assets	24,031,025	23,771,525
<u>Liabilities</u>		
Current liabilities	10,998,274	11,917,188
Long-term liabilities	1,821,039	1,881,821
Total liabilities	12,819,313	13,799,009
<u>Net Assets</u>		
Invested in capital assets, net of related debt	7,600,843	7,152,982
Restricted	1,016,880	693,950
Unrestricted	2,593,989	2,125,584
Total net assets	\$ 11,211,712	\$ 9,972,516

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2006, the District's assets exceeded liabilities by \$11,211,712. At year-end, unrestricted net assets were \$2,593,989.

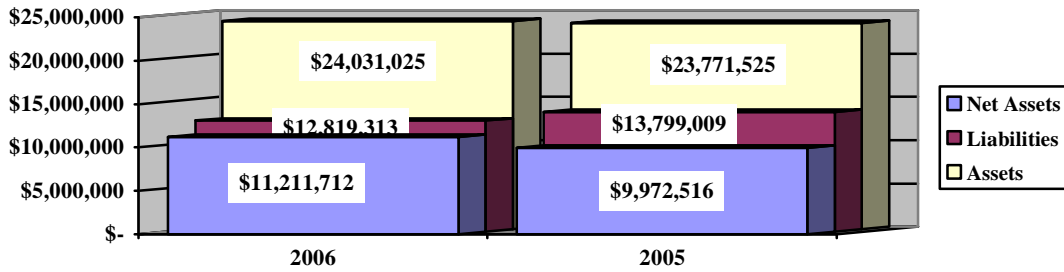
At year-end, capital assets represented 33.39% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment, and vehicles. The amount invested in capital assets, net of related debt to acquire the assets at June 30, 2006, were \$7,600,843. These 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, \$1,016,880, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$2,593,989 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, 2006

Governmental Activities



The table below shows the change in net assets for fiscal years 2006 and 2005.

Change in Net Assets

	Governmental Activities 2006	Governmental Activities 2005
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 1,393,678	\$ 1,180,391
Operating grants and contributions	1,813,852	1,531,747
General revenues:		
Property taxes	9,870,952	9,563,550
Grants and entitlements	11,390,050	11,437,481
Investment earnings	264,521	92,200
Other	90,117	19,508
Total revenues	24,823,170	23,824,877

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Change in Net Assets

	Governmental Activities <u>2006</u>	Governmental Activities <u>2005</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 9,155,211	\$ 9,090,341
Special	2,543,378	2,394,483
Vocational	1,064,557	969,998
Other	1,263,447	1,163,753
Support services:		
Pupil	799,930	886,584
Instructional staff	817,819	846,673
Board of education	23,734	31,843
Administration	1,861,132	1,935,992
Fiscal	394,091	339,493
Business	113,042	99,405
Operations and maintenance	2,084,888	2,107,561
Pupil transportation	1,436,117	1,259,415
Central	76,831	74,353
Operations of non-instructional services	28,518	23,454
Food service operations	950,767	853,024
Extracurricular activities	925,454	902,589
Interest and fiscal charges	<u>45,058</u>	<u>41,108</u>
 Total expenses	 <u>23,583,974</u>	 <u>23,020,069</u>
 Change in net assets	 1,239,196	 804,808
 Net assets at beginning of year	 <u>9,972,516</u>	 <u>9,167,708</u>
 Net assets at end of year	 <u>\$ 11,211,712</u>	 <u>\$ 9,972,516</u>

Governmental Activities

Net assets of the District's governmental activities increased \$1,239,196. Total governmental expenses of \$23,583,974 were offset by program revenues of \$3,207,530 and general revenues of \$21,615,640. Program revenues supported 13.60% of the total governmental expenses.

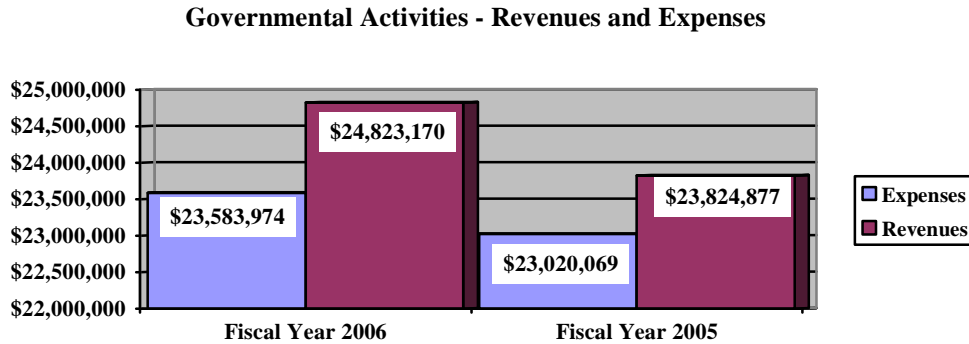
The primary sources of revenue for governmental activities are derived from property taxes and grants and entitlements. These two revenue sources represent 85.65% of total governmental revenue. Real estate property is reappraised every six years.

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, 2006**

The graph below presents the District's governmental activities revenue and expenses for fiscal years 2006 and 2005.



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

	Governmental Activities			
	Total Cost of Services <u>2006</u>	Net Cost of Services <u>2006</u>	Total Cost of Services <u>2005</u>	Net Cost of Services <u>2005</u>
Program expenses				
Instruction:				
Regular	\$ 9,155,211	\$ 8,494,881	\$ 9,090,341	\$ 8,676,501
Special	2,543,378	1,642,310	2,394,483	1,730,047
Vocational	1,064,557	1,025,178	969,998	941,411
Other	1,263,447	1,263,447	1,163,753	1,163,753
Support services:				
Pupil	799,930	614,300	886,584	655,457
Instructional staff	817,819	799,822	846,673	811,908
Board of education	23,734	23,734	31,843	31,843
Administration	1,861,132	1,855,705	1,935,992	1,926,412
Fiscal	394,091	394,091	339,493	339,493
Business	113,042	104,205	99,405	90,895
Operations and maintenance	2,084,888	2,079,882	2,107,561	2,056,085
Pupil transportation	1,436,117	1,435,533	1,259,415	1,257,694
Central	76,831	76,831	74,353	74,353
Operations of non-instructional services	28,518	26,786	23,454	22,010
Food service operations	950,767	16,458	853,024	7,510
Extracurricular activities	925,454	478,223	902,589	481,451
Interest and fiscal charges	45,058	45,058	41,108	41,108
Total	<u>\$ 23,583,974</u>	<u>\$ 20,376,444</u>	<u>\$ 23,020,069</u>	<u>\$ 20,307,931</u>

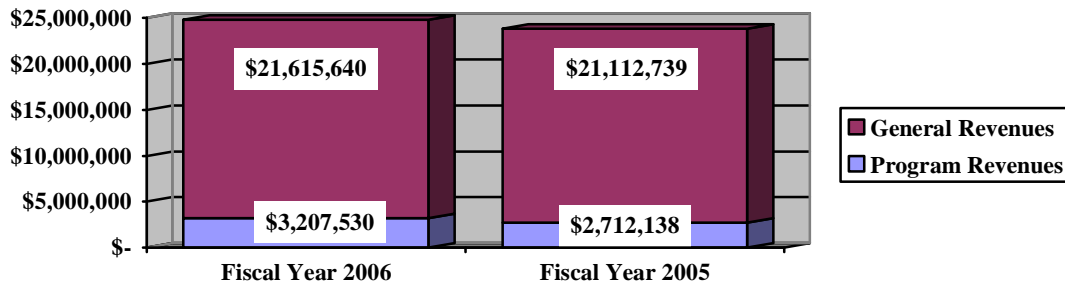
**MARLINGTON LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

The dependence upon tax and other general revenues for governmental activities is apparent, 88.58% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 86.40%. The District's taxpayers and grants and entitlements, as a whole, are by far the primary support for District's students.

The graph below presents the District's governmental activities revenue for fiscal years 2006 and 2005.

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 \$3,874,367, which is higher than last year's total of \$3,329,175. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2006 and 2005.

	Fund Balance <u>June 30, 2006</u>	Fund Balance <u>June 30, 2005</u>	Increase <u>(Decrease)</u>
General	\$ 3,379,849	\$ 2,569,012	\$ 810,837
Other Governmental	<u>494,518</u>	<u>760,163</u>	<u>(265,645)</u>
Total	<u><u>3,874,367</u></u>	<u><u>3,329,175</u></u>	<u><u>545,192</u></u>

General Fund

The District's general fund, fund balance increased by \$808,177. The increase in interest revenue was caused by an increase in investments held by the District and an increase in interest rates. 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, 2006

	<u>2006</u> <u>Amount</u>	<u>2005</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>			
Taxes	\$ 9,364,515	\$ 9,032,066	3.68 %
Tuition and fees	219,243	79,279	176.55 %
Earnings on investments	264,521	94,078	181.17 %
Intergovernmental	11,335,387	11,378,584	(0.38) %
Other revenues	<u>235,598</u>	<u>209,934</u>	12.22 %
Total	<u>\$ 21,419,264</u>	<u>\$ 20,793,941</u>	3.01 %
<u>Expenditures</u>			
Instruction	\$ 12,702,234	\$ 12,699,107	0.02 %
Support services	7,295,223	7,141,363	2.15 %
Operation of non-instructional services	25,656	22,240	15.36 %
Extracurricular activities	479,237	474,122	1.08 %
Debt service	<u>91,737</u>	<u>91,737</u>	- %
Total	<u>\$ 20,594,087</u>	<u>\$ 20,428,569</u>	0.81 %

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 2006, the District amended its general fund budget numerous times. For the general fund, final budgeted revenues and other financing sources were \$21,811,477, which was less than the original budgeted revenues estimate of \$21,934,487. Actual revenues and other financing sources for fiscal 2006 was \$21,812,101. This represents a \$624 increase over final budgeted revenues.

General fund final appropriations (appropriated expenditures plus other financing uses) of \$21,668,152 were lower than the original budgeted appropriations estimate of \$21,719,580. The actual budget basis expenditures and other financing uses for fiscal year 2006 totaled \$21,668,152. This equals final budgeted appropriations.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2006, the District had \$7,600,843 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 2006 balances compared to 2005:

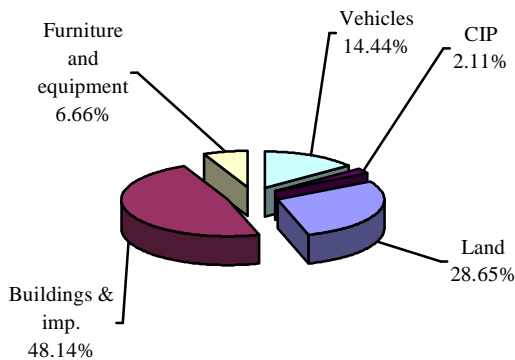
**MARLINGTON LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

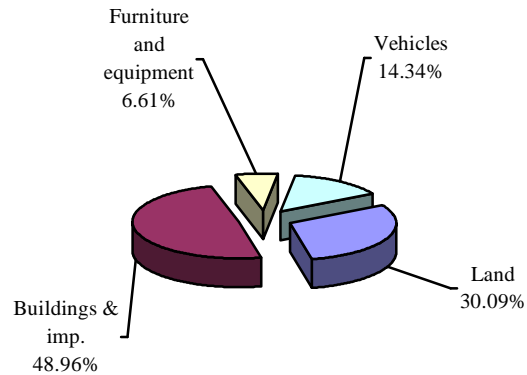
	Capital Assets at June 30 (Net of Depreciation)	
	<u>Governmental Activities</u>	
	<u>2006</u>	<u>2005</u>
Land	\$ 2,298,712	\$ 2,298,712
Construction in progress	169,300	-
Land improvements	-	-
Building and improvements	3,863,359	3,740,671
Furniture and equipment	534,573	504,959
Vehicles	<u>1,158,843</u>	<u>1,095,253</u>
Total	<u>\$ 8,024,787</u>	<u>\$ 7,639,595</u>

The overall increase in capital assets of \$385,192 is primarily due to capital outlays of \$793,161 exceeding depreciation expense of \$407,969 in the fiscal year.

Capital Assets - Governmental Activities 2006



Capital Assets - Governmental Activities 2005



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

Debt Administration

At June 30, 2006 the District had \$515,000 in energy conservation notes payable outstanding. The entire total is due within one year. The District also has a capital lease in the amount of \$423,944. The following table summarizes the notes outstanding.

	Outstanding Debt, at Year End	
	<u>Governmental Activities</u>	
	<u>2006</u>	<u>2005</u>
Energy conservation notes	\$ 515,000	\$ 515,000
Total	<u>\$ 515,000</u>	<u>\$ 515,000</u>

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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

Current Financial Related Activities

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

The District is also concerned with potential changes in State funding. An example of this is Parity Aid. In 2006, the District received almost \$1,025,000 in Parity Aid. There is currently no State commitment to continue financing Parity Aid in 2007, which, if not replaced, will cause a significant reduction in revenue to the District. The District relies heavily on State funding, with the State share of funding for 2006 calculated by state formula at 50.98% of total revenue.

In May 2003, the community passed a new 8.5 mil operating levy, representing the first new operating revenue since 1990. In November 2004, the community renewed a 2 mil permanent improvement levy, which has been decreased to an effective 1.48 mils due to increases in local property valuations since 1999 when it replaced the previous 2.5 mil permanent improvement levy. The Marlinton community also voted to renew an 8.5 mil levy (3.9 effective mils) passed in November of 2004, which generates approximately \$1.5 million per year for the District. Due to its reliance on limited levies, the District must under its current levy renewal schedule go before the voters 4 out of 5 years in order to maintain existing revenue levels.

Enrollment figures for 2006, which are the primary component for determining state funding, have decreased in recent years. The District remains concerned about possible declining enrollment, due to the adverse impact declining enrollment has on state funding levels. In 2006, District enrollment was 2,665 compared to 2005 and 2004 enrollment levels of 2,682 and 2,716 students, respectively.

Other concerns for the District include increases in the cost of health insurance benefits, increases in fuel costs for buses, and increases in utilities expense. The District continues to utilize appropriate bidding, negotiation, and cooperative purchasing procedures to procure such commodities in the most economical manner.

In 2006, as a result of the District's efforts for continuous educational improvement, the District was awarded by the Ohio Department of Education a rating of "Effective", with Marlinton High School and Marlboro Elementary achieving "Excellent" ratings.

Contacting the District's Financial Management

This financial report is designed to provide our citizen's taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact: Mr. Robert Foss, Treasurer, 10320 Moulin Avenue NE, Alliance, Ohio, 44601-9797.

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

STATEMENT OF NET ASSETS
JUNE 30, 2006

	<u>Governmental Activities</u>
Assets:	
Equity in pooled cash and cash equivalents.	\$ 6,508,568
Receivables:	
Taxes	9,090,336
Accounts	12,754
Intergovernmental	243,924
Accrued interest	3,746
Loans	1,301
Prepayments.	23,419
Materials and supplies inventory	122,190
Capital assets:	
Nondepreciable capital assets.	2,468,012
Depreciable capital assets, net	5,556,775
Total capital assets, net.	<u>8,024,787</u>
 Total assets	 <u>24,031,025</u>
Liabilities:	
Accounts payable	337,340
Accrued wages and benefits	1,932,314
Pension obligation payable.	536,781
Intergovernmental payable	98,287
Deferred revenue	7,562,029
Notes payable	515,000
Accrued interest payable	16,523
Long-term liabilities:	
Due within one year.	377,657
Due within more than one year	1,443,382
 Total liabilities	 <u>12,819,313</u>
Net Assets:	
Invested in capital assets, net of related debt.	7,600,843
Restricted for:	
Capital projects	110,139
Locally funded programs	522
State funded programs	36,429
Federally funded programs	289,075
Other purposes	580,715
Unrestricted	<u>2,593,989</u>
 Total net assets	 <u>\$ 11,211,712</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, 2006

	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental activities:				
Instruction:				
Regular	\$ 9,155,211	\$ 323,659	\$ 336,671	\$ (8,494,881)
Special	2,543,378	-	901,068	(1,642,310)
Vocational	1,064,557	-	39,379	(1,025,178)
Other	1,263,447	-	-	(1,263,447)
Support services:				
Pupil	799,930	-	185,630	(614,300)
Instructional staff	817,819	1,850	16,147	(799,822)
Board of education	23,734	-	-	(23,734)
Administration	1,861,132	-	5,427	(1,855,705)
Fiscal	394,091	-	-	(394,091)
Business	113,042	-	8,837	(104,205)
Operations and maintenance	2,084,888	3,461	1,545	(2,079,882)
Pupil transportation	1,436,117	-	584	(1,435,533)
Central	76,831	-	-	(76,831)
Operation of non-instructional services	28,518	-	1,732	(26,786)
Extracurricular activities	925,454	447,231	-	(478,223)
Food service operations	950,767	617,477	316,832	(16,458)
Interest and fiscal charges	45,058	-	-	(45,058)
Total governmental activities	\$ 23,583,974	\$ 1,393,678	\$ 1,813,852	(20,376,444)

General Revenues:

Property taxes levied for:	
General purposes	9,396,355
Capital projects	474,597
Grants and entitlements not restricted to specific programs	11,390,050
Investment earnings	264,521
Miscellaneous	90,117
Total general revenues	21,615,640
Change in net assets	1,239,196
Net assets at beginning of year	9,972,516
Net assets at end of year	\$ 11,211,712

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:			
Equity in pooled cash and cash equivalents	\$ 4,566,028	\$ 1,506,766	\$ 6,072,794
Receivables:			
Taxes	8,631,807	458,529	9,090,336
Accounts	12,754	-	12,754
Intergovernmental	103,400	140,524	243,924
Accrued interest	3,746	-	3,746
Loans	1,301	-	1,301
Interfund loan receivable	78,741	-	78,741
Prepayments	23,419	-	23,419
Materials and supplies inventory	105,217	16,973	122,190
Due from other funds.	220,285	-	220,285
Restricted assets:			
Equity in pooled cash and cash equivalents	435,774	-	435,774
Total assets.	<u>\$ 14,182,472</u>	<u>\$ 2,122,792</u>	<u>\$ 16,305,264</u>
Liabilities:			
Accounts payable.	\$ 291,322	\$ 46,018	\$ 337,340
Accrued wages and benefits	1,775,147	157,167	1,932,314
Compensated absences payable	98,543	-	98,543
Interfund loan payable	-	78,741	78,741
Pension obligation payable.	481,073	55,708	536,781
Intergovernmental payable.	90,511	7,776	98,287
Due to other funds.	-	220,285	220,285
Accrued interest payable	-	16,523	16,523
Deferred revenue.	8,066,027	531,056	8,597,083
Notes payable	-	515,000	515,000
Total liabilities.	<u>10,802,623</u>	<u>1,628,274</u>	<u>12,430,897</u>
Fund Balances:			
Reserved for encumbrances	446,926	332,951	779,877
Reserved for due from other funds.	220,285	-	220,285
Reserved for materials and supplies inventory	105,217	16,973	122,190
Reserved for prepayments	23,419	-	23,419
Reserved for property tax unavailable for appropriation	669,180	37,890	707,070
Reserved for textbooks.	435,774	-	435,774
Unreserved, undesignated (deficit), reported in:			
General fund	1,479,048	-	1,479,048
Special revenue funds.	-	266,560	266,560
Capital projects funds.	-	(159,856)	(159,856)
Total fund balances	<u>3,379,849</u>	<u>494,518</u>	<u>3,874,367</u>
Total liabilities and fund balances.	<u>\$ 14,182,472</u>	<u>\$ 2,122,792</u>	<u>\$ 16,305,264</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, 2006

Total governmental fund balances		\$	3,874,367
<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.			8,024,787
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Taxes	\$	403,170	
Intergovernmental		389,931	
Accounts receivable		241,953	
Total			1,035,054
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		(1,298,552)	
Capital lease obligations		(423,944)	
Total			(1,722,496)
Net assets of governmental activities		\$	11,211,712

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, 2006

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
From local sources:			
Taxes	\$ 9,364,515	\$ 473,317	\$ 9,837,832
Tuition	219,243	-	219,243
Earnings on investments	264,521	-	264,521
Extracurricular	65,400	353,495	418,895
Charges for services.	-	618,192	618,192
Classroom materials and fees.	83,029	20,453	103,482
Other local revenues	87,169	36,814	123,983
Intergovernmental - intermediate	2,778	-	2,778
Intergovernmental - state.	11,332,609	175,393	11,508,002
Intergovernmental - federal	-	1,398,042	1,398,042
Total revenue.	<u>21,419,264</u>	<u>3,075,706</u>	<u>24,494,970</u>
Expenditures:			
Current:			
Instruction:			
Regular.	8,723,176	287,627	9,010,803
Special	1,723,124	805,203	2,528,327
Vocational	992,543	44,197	1,036,740
Other	1,263,391	-	1,263,391
Support Services:			
Pupil	572,526	226,120	798,646
Instructional staff	807,749	23,108	830,857
Board of education	23,734	-	23,734
Administration	1,816,749	5,550	1,822,299
Fiscal	389,807	-	389,807
Business.	87,533	10,101	97,634
Operations and maintenance	2,026,982	516,388	2,543,370
Pupil transportation.	1,494,077	843	1,494,920
Central	76,066	-	76,066
Operation of non-instructional services.	25,656	2,862	28,518
Extracurricular activities	479,237	438,581	917,818
Facilities acquisition and construction	-	18,850	18,850
Food service operations.	-	941,219	941,219
Debt service:			
Principal retirement	62,669	-	62,669
Interest and fiscal charges	29,068	25,274	54,342
Total expenditures	<u>20,594,087</u>	<u>3,345,923</u>	<u>23,940,010</u>
Excess of revenues over (under) expenditures.	<u>825,177</u>	<u>(270,217)</u>	<u>554,960</u>
Other financing sources (uses):			
Transfers in.	-	17,000	17,000
Transfers out	(17,000)	-	(17,000)
Total other financing sources (uses).	<u>(17,000)</u>	<u>17,000</u>	<u>-</u>
Net change in fund balances.	808,177	(253,217)	554,960
Fund balances at beginning of year	2,569,012	760,163	3,329,175
Increase (decrease) in reserve for inventory	2,660	(12,428)	(9,768)
Fund balances at end of year	<u>\$ 3,379,849</u>	<u>\$ 494,518</u>	<u>\$ 3,874,367</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, 2006

Net change in fund balances - total governmental funds \$ 554,960

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

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 exceeds capital outlays in the current period.

Capital asset additions	\$	793,161	
Current year depreciation		(407,969)	
Total		385,192	385,192

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

Taxes		33,120	
Intergovernmental revenue		295,080	
Total		328,200	328,200

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

Accrued interest			9,284
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Governmental funds report expenditures for inventory when purchased, however, in the statement of activities, they are reported as expenses when consumed.

(9,768)

Principal payments on capital leases are reported as expenditures in governmental funds but the repayment reduces long-term liabilities on the statement of net assets.

62,669

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

(91,341)

Change in net assets of governmental activities **\$ 1,239,196**

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Taxes	\$ 9,399,649	\$ 9,346,935	\$ 9,346,935	\$ -
Tuition	213,608	212,410	212,410	-
Earnings on investments	230,257	228,966	228,966	-
Extracurricular activities	63,167	62,813	62,830	17
Classroom materials and fees	82,877	82,412	83,019	607
Other local revenues	81,489	81,032	81,032	-
Other revenues	8,497	8,449	8,449	-
Intergovernmental - state	11,396,521	11,332,609	11,332,609	-
Total revenue	<u>21,476,065</u>	<u>21,355,626</u>	<u>21,356,250</u>	<u>624</u>
Expenditures:				
Current:				
Instruction:				
Regular	8,819,397	8,798,513	8,798,513	-
Special	1,727,578	1,723,487	1,723,487	-
Vocational	1,050,451	1,047,964	1,047,964	-
Other	1,303,787	1,300,700	1,300,700	-
Support Services:				
Pupil	640,676	639,159	639,159	-
Instructional staff	810,879	808,959	808,959	-
Board of education	18,619	18,575	18,575	-
Administration	1,888,817	1,884,345	1,884,345	-
Fiscal	403,919	402,963	402,963	-
Business	98,927	98,693	98,693	-
Operations and maintenance	2,256,301	2,250,958	2,250,958	-
Pupil transportation	1,558,686	1,554,995	1,554,995	-
Central	84,286	84,086	84,086	-
Operation of non-instructional services	25,097	25,038	25,038	-
Extracurricular activities	578,700	577,330	577,330	-
Total expenditures	<u>21,266,120</u>	<u>21,215,765</u>	<u>21,215,765</u>	<u>-</u>
Excess of revenues over expenditures	<u>209,945</u>	<u>139,861</u>	<u>140,485</u>	<u>624</u>
Other financing sources (uses):				
Refund of prior year expenditure	2,183	2,171	2,171	-
Transfers out	(17,040)	(17,000)	(17,000)	-
Advances in	456,239	453,680	453,680	-
Advances out	(436,420)	(435,387)	(435,387)	-
Total other financing sources (uses)	<u>4,962</u>	<u>3,464</u>	<u>3,464</u>	<u>-</u>
Net change in fund balance	214,907	143,325	143,949	624
Fund balance at beginning of year	3,535,665	3,535,665	3,535,665	-
Prior year encumbrances appropriated	533,889	533,889	533,889	-
Fund balance at end of year	<u>\$ 4,284,461</u>	<u>\$ 4,212,879</u>	<u>\$ 4,213,503</u>	<u>\$ 624</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, 2006

	Private-Purpose Trust	
	Scholarship	Agency
Assets:		
Equity in pooled cash and cash equivalents	\$ 114,434	\$ 59,863
Investments	500,000	-
Total assets.	614,434	\$ 59,863
Liabilities:		
Accounts payable.	-	\$ 99
Loans payable	-	1,301
Due to students.	-	58,463
Total liabilities	-	\$ 59,863
Net Assets:		
Held in trust for scholarships.	614,434	
Total net assets	\$ 614,434	

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, 2006

	Private-Purpose Trust
	Scholarship
Additions:	
Interest	\$ 19,714
Gifts and contributions	3,300
Total additions	23,014
Deductions:	
Scholarships awarded	12,334
Change in net assets	10,680
Net assets at beginning of year	603,754
Net assets at end of year	\$ 614,434

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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 189th largest by total enrollment among the 615 public school districts in the State. The District employs 108 non-certified and 166 certified employees to provide services to approximately 2,751 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" and as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units". The reporting entity is composed of the primary government, component units and other organizations that are included to ensure that the basic financial statements of the District are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, foods service, and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organizations' governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organizations resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; (4) or the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Based upon the application of these 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, 2006**

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, 2006

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.

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

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

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.

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

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, 2006, but which were levied to finance fiscal year 2007 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

E. Budgets

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

Tax Budget:

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

Estimated Resources:

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

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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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

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

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

Lapsing of Appropriations:

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

F. Cash and Investments

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

During fiscal year 2006, investments were limited to overnight repurchase agreements, nonnegotiable certificates of deposit, U.S. government money market mutual funds, U.S. Treasury bills and notes and investments in the State Treasury Asset Reserve of Ohio (STAR Ohio). Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts, such as repurchase agreements and nonnegotiable certificates of deposit, are reported at cost.

The District has invested funds in STAR Ohio during fiscal 2006. 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, 2006.

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 2006 amounted to \$264,521, which includes \$87,445 assigned from other District funds.

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

G. Inventory

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

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

H. Capital Assets

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

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

All reported capital assets except land and construction in progress 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:

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

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 "advances 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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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

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, 2006, 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.

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, due from 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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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

M. Net Assets

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

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

N. Prepayments

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

O. Estimates

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

P. Restricted Assets

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

Q. Interfund Activity

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

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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

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 2006.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Changes in Accounting Principles

For fiscal year 2006, the District has implemented GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries", GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation", and GASB Statement No. 47, "Accounting for Termination Benefits".

GASB Statement No. 42 amends GASB Statement No. 34 and establishes accounting and financial reporting standards for impairment of capital assets and accounting requirements for insurance recoveries.

GASB Statement No. 46 defines enabling legislation and specifies how net assets should be reported in the financial statements when there are changes in such legislation. The Statement also requires governments to disclose in the notes to the financial statements the amount of net assets restricted by enabling legislation.

GASB Statement No. 47 establishes accounting standards for termination benefits.

The implementation of GASB Statement No. 42, GASB Statement No. 46 and GASB Statement No. 47 did not have an effect on the fund balances/net assets of the District as previously reported at June 30, 2005.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

B. Deficit Fund Balances

Fund balances at June 30, 2006 included the following individual fund deficits:

	<u>Deficit</u>
<u>Nonmajor Funds</u>	
District Managed Student Activity	\$ 141,923
Entry year Program	604
Poverty Aid	4,818
Migrant Grant	4,225
Ohio Reads	399
Title VI-B	87,090
Title III-Limited English	16,631
Title I	39,926
Title VI-B	1,089
Drug Free School Grant	1
Improving Teacher Quality	18,435
Miscellaneous Federal Grant	1,851

The special revenue funds deficit balance resulted from adjustments for accrued liabilities. The general fund is liable for any deficit in these funds and provides operating transfers when cash is required, not when accruals occur.

NOTE 4 - DEPOSITS AND INVESTMENTS

State statutes classify 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 that the Board of Education has identified as not required for use within the current five 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 moneys are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

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

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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 and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time: and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest 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, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

A. Deposits with Financial Institutions

At June 30, 2006, the carrying amount of all District deposits was \$1,480,889, exclusive of the \$5,025,010 repurchase agreement included in investments below. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2006, \$1,366,752 of the District's bank balance of \$1,566,752 was exposed to custodial risk as discussed below, while \$200,000 was covered by Federal Deposit Insurance Corporation.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Custodial credit risk is the risk that, in the event of bank failure, the District's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the District.

B. Investments

As of June 30, 2006, the District had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities 6 months or less</u>
Repurchase Agreement	\$ 5,025,010	\$ 5,025,010
STAR Ohio	<u>677,587</u>	<u>677,587</u>
	<u>\$ 5,702,597</u>	<u>\$ 5,702,597</u>

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the District's investment policy limits investment portfolio maturities to five years or less.

Credit Risk: Standard & Poor's has assigned STAR Ohio an AAAM money market rating.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Of the District's investment in repurchase agreements, the entire balance is collateralized by underlying securities pledged by the investment's counterparty, not in the name of the District.

Concentration of Credit Risk: The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2006:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
Repurchase Agreement	\$ 5,025,010	88.12
STAR Ohio	<u>677,587</u>	<u>11.88</u>
	<u>\$ 5,702,597</u>	<u>100.00</u>

C. Reconciliation of Cash and Investments to the Statement of Net Assets

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2006:

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 1,480,889
Investments	<u>5,702,597</u>
Total	<u>\$ 7,183,486</u>

<u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 6,508,568
Private-purpose trust funds	614,434
Agency funds	<u>60,484</u>
Total	<u>\$ 7,183,486</u>

NOTE 5 - INTERFUND TRANSACTIONS

- A.** Interfund loans receivable/payable consisted of the following at June 30, 2006, as reported on the fund statement:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor Governmental funds	\$ 78,741

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.

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2006 are reported on the statement of net assets.

- B.** Interfund transfers for the year ended June 30, 2006, consisted of the following, as reported on the fund statements:

	<u>Amount</u>
Transfers to general fund from:	
Nonmajor governmental funds	\$ 17,000

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

Interfund transfers between governmental funds are eliminated for reporting in the statement of activities.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 5 - INTERFUND TRANSACTIONS - (Continued)

- C. Amounts “due from” and “due to” other funds for the year ended June 30, 2006, consisted of the following, as reported on the fund statements:

	<u>Amount</u>
Due to general fund to:	
Nonmajor Governmental funds	\$ 220,285

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.

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2006 are reported on the statement of net assets.

- D. Loans between governmental funds and agency funds are reported a “loans receivable/payable” on the financial statements. The District had the following loans outstanding at fiscal year-end:

<u>Loan From</u>	<u>Loan To</u>	<u>Amount</u>
General	Agency	\$ 1,301

This loan is expected to be repaid in the subsequent year as resources become available in the agency fund.

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 2006 represents collections of calendar year 2005 taxes. Real property taxes received in calendar year 2006 were levied after April 1, 2005, on the assessed value listed as of January 1, 2005, 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 2006 represents collections of calendar year 2005 taxes. Public utility real and tangible personal property taxes received in calendar year 2006 became a lien December 31, 2004, were levied after April 1, 2005 and are collected in 2006 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE 6 - PROPERTY TAXES - (Continued)

Tangible personal property tax revenue received during calendar 2006 (other than public utility property) represents the collection of 2006 taxes. Tangible personal property taxes received in calendar year 2006 were levied after April 1, 2005, on the value as of December 31, 2004. 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.

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

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, 2006, are available to finance fiscal year 2006 operations. The amount available as an advance at June 30, 2006 was \$669,180 in the general fund and \$37,890 in the Permanent Improvement fund. The amount that was available as advance at June 30, 2005 was \$651,600 in the general fund and \$36,940 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, 2006 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE 6 - PROPERTY TAXES - (Continued)

The assessed values upon which the fiscal year 2006 taxes were collected are:

	2005 Second Half Collections		2006 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential and Other Real Estate	\$ 281,862,070	88.25	\$ 286,630,360	90.37
Public Utility Personal	9,148,440	2.86	8,601,450	2.71
Tangible Personal Property	<u>28,399,827</u>	<u>8.89</u>	<u>21,948,191</u>	<u>6.92</u>
Total	<u>\$ 319,410,337</u>	<u>100.00</u>	<u>\$ 317,180,001</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation for:				
Operations	\$ 54.90		\$ 54.90	
Permanent improvements	2.00		2.00	

NOTE 7 - RECEIVABLES

Receivables at June 30, 2006 consisted of taxes, accounts (billings for user charged services and student fees), accrued interest, intergovernmental grants and entitlements, and intergovernmental receipts for tax increment financing payments due to the District. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of Federal funds. A summary of the principal items of receivables reported on the statement of net assets follows:

Governmental Activities

Taxes	\$ 9,090,336
Accounts	12,754
Accrued interest	3,746
Intergovernmental	<u>243,924</u>
Total	<u>\$ 9,350,760</u>

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

NOTE 8 - CAPITALIZED LEASES - LESSEE DISCLOSURE

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

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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

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 2006 fiscal year totaled \$62,669. 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, 2006.

<u>Year Ending June 30</u>	<u>Amount</u>
2007	\$ 91,737
2008	91,737
2009	91,737
2010	91,737
2011	91,737
2012	<u>45,868</u>
Total minimum lease payment	504,553
Less: amount representing interest	<u>(80,609)</u>
Present value of minimum lease payments	<u>\$ 423,944</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 9 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2006, was as follows:

	Balance			Balance
	<u>June 30, 2005</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2006</u>
Governmental Activities				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 2,298,712	\$ -	\$ -	\$ 2,298,712
Construction in progress	-	169,300	-	169,300
Total capital assets, not being depreciated	<u>2,298,712</u>	<u>169,300</u>	<u>-</u>	<u>2,468,012</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	1,275,715	-	-	1,275,715
Buildings and improvements	9,171,420	315,498	-	9,486,918
Furniture and equipment	1,495,805	77,965	-	1,573,770
Vehicles	2,551,053	230,398	(120,432)	2,661,019
Total capital assets, being depreciated	<u>14,493,993</u>	<u>623,861</u>	<u>(120,432)</u>	<u>14,997,422</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(1,275,715)	-	-	(1,275,715)
Buildings and improvements	(5,430,749)	(192,810)	-	(5,623,559)
Furniture and equipment	(990,846)	(48,351)	-	(1,039,197)
Vehicles	(1,455,800)	(166,808)	120,432	(1,502,176)
Total accumulated depreciation	<u>(9,153,110)</u>	<u>(407,969)</u>	<u>120,432</u>	<u>(9,440,647)</u>
Governmental activities capital assets, net	<u>\$ 7,639,595</u>	<u>\$ 385,192</u>	<u>\$ -</u>	<u>\$ 8,024,787</u>

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 131,972
Special	374
Vocational	12,115
<u>Support Services:</u>	
Instructional staff	1,335
Administration	1,630
Business	15,408
Operations and maintenance	69,767
Pupil transportation	165,034
Central	310
Extracurricular activities	3,270
Food service operations	6,754
Total depreciation expense	<u>\$ 407,969</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 10 - DEBT OBLIGATIONS

A. Short-Term Debt

Short-term note debt activity for the year ended June 30, 2006, consisted of the following:

	Balance June 30, 2005	Increase	Decrease	Balance June 30, 2006
Energy conservation note	\$ 515,000	\$ 515,000	\$ (515,000)	\$ 515,000

The above note is backed by the full faith and credit of the District and matures within one year. The note liability is reflected in the fund which received the proceeds. The note will be repaid from governmental fund revenues. These notes will mature August 3, 2006 and bear an interest rate of 3.5%.

B. Long-Term Obligations

During the fiscal year 2006, the following changes occurred in governmental activities long-term obligations:

	Balance June 30, 2005	Increase	Decrease	Balance June 30, 2006	Amount Due in One Year
Compensated absences	\$ 1,395,208	\$ 365,768	\$ (363,881)	\$ 1,397,095	\$ 310,964
Capital lease obligations	486,613	-	(62,669)	423,944	66,693
Total	\$ 1,881,821	\$ 365,768	\$ (426,550)	\$ 1,821,039	\$ 377,657

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

NOTE 11 - OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws. Classified employees earn five to twenty days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time. Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Upon retirement, payment is made to certified and classified employees for one-fourth of accrued, but unused sick leave credit up to a maximum 66 and 65 days, respectively.

B. Insurance Benefits

The District provides life insurance and accidental death and dismemberment insurance to most employees through Stark County Schools 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, 2006**

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, 2006, a total of \$15,000 is the liability for this ERIP for employees who took advantage of the ERIP as of fiscal year-end.

At June 30, 2006, 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, 2006, 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 2006, 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 Governments (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, 2006**

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 performance 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 - PENSION PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System (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 Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (800) 878-5853. It is also posted on SERS' website, www.ohsers.org, under Forms and Publications.

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent 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 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 percent 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 statutory maximum amounts, by the SERS' Retirement Board. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005, and 2004 were \$297,199, \$278,954 and \$336,533 respectively; 37.87% has been contributed for fiscal year 2006 and 100% for the fiscal years 2005 and 2004. \$184,645 represents the unpaid contribution for fiscal year 2006 and is recorded as a liability within the respective funds.

B. State Teachers Retirement System

The District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 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, 2006**

NOTE 13 - 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 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent 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 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contributions for pension obligations to the DB plan for the fiscal years ended June 30, 2006, 2005, and 2004 were \$1,354,789, \$1,332,369, and \$1,376,751, respectively; 84.12% has been contributed for fiscal year 2006 and 100% for the fiscal years 2005 and 2004. \$215,202 represents the unpaid contribution for fiscal year 2006 and is recorded as a liability within the respective funds. Contributions to the DC and Combined Plans for fiscal 2006 were \$13,594 made by the District and \$33,061 made by plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by SERS or the STRS have an option to choose Social Security or the SERS/STRS. As of June 30, 2006, certain members of the Board of Education have elected Social Security. The District's liability is 6.2% of wages paid.

NOTE 14 - POSTEMPLOYMENT BENEFITS

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE 14 - POSTEMPLOYMENT BENEFITS - (Continued)

STRS retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the District, this amount equaled \$104,215 for fiscal year 2006.

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006 the balance in the Health Care Stabilization Fund was \$3.5 billion. For the fiscal year ended June 30, 2006 net health care costs paid by STRS were \$282.743 million and STRS had 119,184 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. Premiums may be reduced for retirees whose household income falls below the poverty level.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, a decrease of 0.01 percent from fiscal year 2005. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2006 fiscal year, District paid \$140,025 to fund health care benefits, including the surcharge.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2006 were \$158.751 million. At June 30, 2006 SERS had net assets available for payment of health care benefits of \$295.6 million, which is about 221 percent of next years projected net health care costs. On the basis of actuarial projections, the allocated contributions will be insufficient in the long term, to provide for a health care reserve equal to at least 150 percent of estimated annual net claim costs. SERS has 59,492 participants currently receiving health care benefits.

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING

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

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

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

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

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

Net Change in Fund Balance

	<u>General Fund</u>
Budget basis	\$ 143,949
Net adjustment for revenue accruals	63,014
Net adjustment for expenditure accruals	(134,812)
Net adjustment for other sources/uses	(20,464)
Adjustment for encumbrances	756,490
GAAP basis	\$ 808,177

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.

B. Litigation

A lawsuit has been filed by the Columbia Gas Transmission Corporation arguing that the Corporation's public utility property tax assessment rate should be 25% of true value rather than the 88% used by the Tax Commissioner. The Board of Tax Appeals has agreed with the Corporation and the case has been appealed by the Tax Commissioner to the Ohio Supreme Court. The District receives a significant amount of property tax from the Corporation. Should the Corporation prevail in the Supreme Court, it may be entitled to a refund from the District based on the lower assessment rate beginning from tax year 2001. The amount of the refund is estimated to be approximately \$10,947 per year. A portion of the refund may be recovered from additional State entitlement payments.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 17 - STATUTORY RESERVES

The District is required by State statute to annually set-aside in the general fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at 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, 2005	\$ 287,354	\$ -
Current year set-aside requirement	637,307	637,307
Current year offsets	-	(472,367)
Qualifying disbursements	<u>(488,887)</u>	<u>(691,438)</u>
Total	<u>\$ 435,774</u>	<u>\$ (526,498)</u>
Balance carried forward to FY 2007	<u>\$ 435,774</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.

A schedule of the restricted assets at June 30, 2006 follows:

Amount restricted for textbooks/instructional materials	<u>\$ 435,774</u>
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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Education
Marlington Local School District
10320 Moulin Avenue, NE
Alliance, OH 44601

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Marlington Local School District (the District), as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 23, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Compliance and Other Matters

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

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS* (continued)

We noted certain matters that we reported to management of the District in a separate letter dated March 23, 2007.

This report is intended solely 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.

Varney, Fink & Associates

VARNEY, FINK & ASSOCIATES, INC.
Certified Public Accountants

March 23, 2007

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

Board of Education
Marlington Local School District
10320 Moulin Avenue, NE
Alliance, OH 44601

Compliance

We have audited the compliance of the Marlington Local School District (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. 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 with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe 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 Marlington Local School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal program for the year ended June 30, 2006.

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 (continued)

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 the internal control over compliance in accordance with OMB Circular A-133.

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

This report is intended solely 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.

Varney, Fink & Associates

VARNEY, FINK & ASSOCIATES, INC.
Certified Public Accountants

March 23, 2007

**Marlington Local School District
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2006**

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Receipts	Disbursements
<u>U.S. Department of Agriculture</u>				
<i>Passed Through Ohio Department of Education:</i>				
Food Donation	10.550	----	\$84,514	\$84,514
Child Nutrition Cluster:				
National School Breakfast Program	10.553	049882-05PU-2005	2,496	2,496
National School Breakfast Program	10.553	049882-05PU-2006	6,390	6,390
Total National School Breakfast Program			8,886	8,886
National School Lunch Program	10.555	049882-LLP4-2005	48,421	48,421
National School Lunch Program	10.555	049882-LLP4-2006	163,286	163,286
Total National School Lunch Program			211,707	211,707
Total Child Nutrition Cluster			220,593	220,593
Total U.S. Department of Agriculture			305,107	305,107
<u>U.S. Department of Health and Human Services</u>				
<i>Passed Through Ohio Department of Mental Retardation and Developmental Disabilities:</i>				
Medicaid Cluster:				
Medical Assistance Program	93.778	---	15,679	15,679
State Children's Insurance Program	93.767	---	1,969	1,969
Total U.S. Department of Health and Human Services - Medicaid Cluster			17,648	17,648
<u>U.S. Department of Education</u>				
<i>Passed Through Ohio Department of Education:</i>				
Special Education Grants to States	84.027	049882-6BSF-2005	142,100	162,477
Special Education Grants to States	84.027	049882-6BSF-2006	637,765	637,765
Total Special Education - Grants to States			779,865	800,242
Title I Grants to Local Educational Agencies	84.010	049882-C1S1-2005	91,888	111,945
Title I Grants to Local Educational Agencies	84.010	049882-C1S1-2006	494,462	494,462
Total Title I Grants to Local Educational Agencies			586,350	606,407
Migrant Educational - State Grant Program	84.011	049882-MGS1-2005	28,087	40,166
Migrant Educational - State Grant Program	84.011	049882-MGS1-2006	14,254	8,752
Total Migrant Educational - State Grant Program			42,341	48,918
Safe and Drug-Free Schools and Communities - State Grants	84.186	049882-DRS1-2006	24,201	22,991
State Grants for Innovative Programs	84.298	049882-C2S1-2005	0	778
State Grants for Innovative Programs	84.298	049882-C2S1-2006	8,756	8,491
Total State Grants for Innovative Programs			8,756	9,269
Education Technology State Grants	84.318	049882-TJS1-2005	884	884
Education Technology State Grants	84.318	049882-TJS1-2006	10,872	9,578
Total Education Technology State Grants			11,756	10,462
Advanced Placement Program	84.330	049882-AVTF-2005	52	0
English Language Acquisition Grants	84.365	049882-T3S1-2006	35,971	35,341
English Language Acquisition Grants	84.365	049882-T3S1-2005	2,940	3,767
Total English Language Acquisition Grants			38,911	39,108
Improving Teacher Quality State Grant	84.367	049882-TRS1-2005	29,112	28,827
Improving Teacher Quality State Grant	84.367	049882-TRS1-2006	128,075	128,075
Total Improving Teacher Quality State Grant			157,187	156,902
Total U.S. Department of Education			1,649,419	1,694,299
Total Federal Assistance			\$1,972,174	\$2,017,054

The notes to this Schedule are an integral part of this Schedule.

MARLINGTON LOCAL SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Expenditures of Federal Awards is a summary of the activity of the District's federal award programs. The Schedule has been prepared on the cash basis of accounting. The information in the Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Therefore, some amounts presented in the Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B – CHILD NUTRITION CLUSTER

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

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

MARLINGTON LOCAL SCHOOL DISTRICT

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 §505**

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of auditor's report issued on the basic financial statements	Unqualified Opinion
(d)(1)(ii)	Were there any material weaknesses in internal control reported at the basic financial statement level?	No
(d)(1)(ii)	Were there any other reportable conditions in internal control reported at the basic financial statement level?	No
(d)(1)(iii)	Was there any material noncompliance reported at the basic financial statement level?	No
(d)(1)(iv)	Were there any material weaknesses in internal control over major programs reported?	No
(d)(1)(iv)	Were there any other reportable conditions in internal control over major programs reported?	No
(d)(1)(v)	Type of auditor's report issued on compliance for major programs	Unqualified Opinion
(d)(1)(vi)	Were there any reportable audit findings under §510?	No

MARLINGTON LOCAL SCHOOL DISTRICT

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 §505**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(CONTINUED)**

(d)(1)(vii)	Major Program:	Special Education - Grants to States, CFDA #84.027
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

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

None

3. FINDINGS FOR FEDERAL AWARDS

None



Mary Taylor, CPA
Auditor of State

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 15, 2007**