



**Auditor of State
Betty Montgomery**



Mary Taylor, CPA
Auditor of State

January 19, 2007

The attached audit report was completed and prepared for release prior to the commencement of my term of office on January 8, 2007. Thus, I am certifying this audit report for release under the signature of my predecessor.

Mary Taylor

MARY TAYLOR, CPA
Auditor of State

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**MARIETTA CITY SCHOOL DISTRICT
WASHINGTON COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Marietta City School District
Washington County
11 Academy Drive
Marietta, Ohio 45750

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Marietta City School District, Washington County, Ohio (the School District), as of and for the year ended June 30, 2006, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

Ohio Administrative Code § 117-2-03(B) requires the School District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, as discussed in Note 2, the accompanying financial statements and notes follow the cash accounting basis. This is a comprehensive accounting basis other than generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, we cannot determine at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Marietta City School District, Washington County, Ohio, as of June 30, 2006, and the respective changes in cash financial position and the respective budgetary comparison for the General Fund thereof for the year then ended in conformity with the basis of accounting Note 2 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2006, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

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

Betty Montgomery
Auditor of State

December 19, 2006

Marietta City School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

The discussion and analysis of the Marietta City School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2006. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the basic financial statements and the notes to the financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for the fiscal year 2006 are as follows:

- Net assets of governmental activities increased \$661,007.
- General receipts accounted for \$21,465,384 in receipts or 82% of all receipts. Program specific cash receipts in the form of charges for services, grants, contributions, and interest accounted for \$4,806,329 or 18% of total receipts of \$26,271,713.
- The School District had \$25,610,706 in disbursements related to governmental activities; only \$4,806,329 of these disbursements were offset by program specific charges for services, grants, contributions, and interest. General revenues of \$21,465,384 were adequate to provide for these programs by \$661,007.
- The School District's major funds were the General Fund, Bond Retirement Fund, and the Permanent Improvement Fund. The General Fund had \$20,899,689 in receipts and \$20,407,206 in disbursements. The General Fund's balance increased \$875,515. The Bond Retirement Fund had \$973,543 in receipts and \$1,067,377 in disbursements. The Bond Retirement Fund's balance decreased \$93,834. The Permanent Improvement Fund had \$865,400 in other financing sources and \$486,111 in disbursements. The Permanent Improvement Fund's balance increased \$379,289.

Using this Annual Financial Report

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

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

Marietta City School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

Reporting the School District as a Whole

Statement of Net Assets – Cash Basis and Statement of Activities – Cash Basis

While this document contains information about the large number of funds used by the School District to provide programs and activities for students, the view of the School District as a whole looks at all financial transactions and asks the question, “How did we do financially during fiscal year 2006?” The Statement of Net Assets – Cash Basis and the Statement of Activities – Cash Basis answer this question. These two statements report the School District’s net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the School District as a whole, the financial position of the School District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the School 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 – Cash Basis and the Statement of Activities – Cash Basis, all of the School District’s programs and services are reported as governmental activities including food service operations, instruction, support services, operation of non-instructional services, bond service operations, and extracurricular activities.

Reporting the School District’s Most Significant Funds

Fund Financial Statements

The analysis of the School District’s major funds begins on page 9. Fund financial reports provide detailed information about the School District’s major funds. The School District uses many funds to account for a multiple of financial transactions. However, these fund financial statements focus on the School District’s most significant funds. The School District’s major governmental funds are the General Fund, Bond Retirement Fund, and Permanent Improvement Capital Projects Fund.

Governmental Funds Most of the School District’s activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at fiscal year end available for spending in future periods. These funds are reported on a cash basis. The governmental fund statements provide a detailed short-term view of the School 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 School District as a Whole

Recall that the Statement of Net Assets – Cash Basis provides the perspective of the School District as a whole. Table 1 provides a summary of the School District’s net assets for 2006 compared to 2005.

Marietta City School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
 Unaudited

Table 1
 Net Assets - Cash Basis

	Governmental Activities	
	2006	2005
Assets		
Equity in Pooled Cash and Cash Equivalents	\$5,614,940	\$4,953,933
Net Assets		
Restricted	2,817,100	2,489,834
Unrestricted	2,797,840	2,464,099
Total Net Assets	\$5,614,940	\$4,953,933

The above table reflects an increase in net assets of \$661,007.

A large majority of this increase can be attributed to the sale of notes for the H.B.264 energy conservation project in which a major portion of these funds were not expended by the end of the fiscal year but will be by the end of the calendar year.

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2006, and comparisons to June 30, 2005.

Marietta City School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
 Unaudited

Table 2
 Changes in Net Assets

	Governmental Activities <u>2006</u>	Governmental Activities <u>2005</u>
Receipts		
Program Cash Receipts:		
Charges for Services	\$1,180,194	\$1,252,147
Operating Grants, Contributions and Interest	3,610,978	3,917,539
Capital Grants and Contributions	15,157	19,716
Total Program Cash Receipts	<u>4,806,329</u>	<u>5,189,402</u>
General Receipts:		
Property Taxes	11,459,451	11,675,978
Grants and Entitlements	8,718,872	8,628,276
Investment Earnings	187,603	105,099
Receipts from Sale of Capital Assets	148,492	2,330
Notes Issued	719,173	0
Payments in Lieu of Taxes	71,289	60,562
Miscellaneous	160,504	332,563
Total General Receipts	<u>21,465,384</u>	<u>20,804,808</u>
Special Item:		
Sale of School Buildings	0	276,248
Total Receipts	<u>26,271,713</u>	<u>26,270,458</u>
Program Disbursements		
Instruction:		
Regular	10,407,657	10,461,439
Special	3,196,051	3,075,292
Vocational	76,450	83,933
Adult/Continuing	72,582	74,094
Support Services:		
Pupils	1,226,690	1,165,887
Instructional Staff	1,564,241	1,657,885
Board of Education	80,680	96,911
Administration	1,915,477	1,868,362
Fiscal	476,761	473,068
Business	260,756	264,325
Operation and Maintenance of Plant	2,194,522	2,032,377
Pupil Transportation	1,162,285	1,192,364
Central	82,176	99,821
Operation of Non-Instructional Services:		
Food Service Operations	731,577	634,114
Other	122,282	145,759
Extracurricular Activities	494,372	454,269
Capital Outlay	486,111	41,076
Principal Retirement	989,600	983,729
Interest and Fiscal Charges	70,436	95,524
Total Disbursements	<u>25,610,706</u>	<u>24,900,229</u>
Changes in Net Assets	661,007	1,370,229
Net Assets Beginning of Year	4,953,933	3,583,704
Net Assets End of Year	<u>\$5,614,940</u>	<u>\$4,953,933</u>

Marietta City School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

During fiscal year 2006, the School District received the final ninety percent (\$146,227) for the sale of the Administration Building which required the Board to vacate the property by June 30, 2006. The Board renovated the Middle School vocational building into office space for the Student Services Center which houses the staff for Special Education, Psychological, Gifted, and Technology services for the School District. The Board also renovated a portion of the High School vocational building for the Administration Building which contains the Superintendent, Director of Instruction, Business Manager, and Chief Fiscal Officer and their staff.

The DeRolph III decision has not eliminated the dependence on property taxes. The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. Inflation alone will not increase the amount of funds generated by a tax levy. Basically, the mills collected decreases as the property valuation increases thus generating about the same revenue. Property taxes made up approximately 44% of revenues for governmental activities for the Marietta City School District in fiscal year 2006.

The Statement of Activities shows the cost of program services and the charges for services, grants, contributions, and interest earnings offsetting those services. Table 3 shows the total cost of services and the net cost of services. That is, it identifies the cost of those services supported by tax revenue and unrestricted state entitlements. Comparisons to 2005 have been made.

Marietta City School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
 Unaudited

Table 3
 Governmental Activities

	<u>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
Program Disbursements				
Instruction:				
Regular	\$10,407,657	\$9,466,940	\$10,461,439	\$9,494,564
Special	3,196,051	1,453,860	3,075,292	1,137,155
Vocational	76,450	63,198	83,933	63,424
Adult/Continuing	72,582	1,874	74,094	3,978
Support Services:				
Pupils	1,226,690	1,112,193	1,165,887	1,064,374
Instructional Staff	1,564,241	1,014,242	1,657,885	1,021,731
Board of Education	80,680	80,680	96,911	96,911
Administration	1,915,477	1,726,328	1,868,362	1,608,667
Fiscal	476,761	476,761	473,068	464,155
Business	260,756	260,756	264,325	264,325
Operation and Maintenance of Plant	2,194,522	2,166,841	2,032,377	2,018,002
Pupil Transportation	1,162,285	1,039,520	1,192,364	1,071,168
Central	82,176	67,378	99,821	72,203
Operation of Non-Instructional Services				
Food Service	731,577	(27,949)	634,114	(119,054)
Other	122,282	(15,825)	145,759	(1,937)
Extracurricular Activities	494,372	371,433	454,269	330,832
Capital Outlay	486,111	486,111	41,076	41,076
Principal Retirement	989,600	989,600	983,729	983,729
Interest and Fiscal Charges	70,436	70,436	95,524	95,524
Total	<u>\$25,610,706</u>	<u>\$20,804,377</u>	<u>\$24,900,229</u>	<u>\$19,710,827</u>

The dependence upon tax revenues and state subsidies for governmental activities is apparent. For fiscal year 2006, approximately 64% of instruction activities were supported through taxes and other general revenues.

Marietta City School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
 Unaudited

The School District Funds

The School District's major funds are accounted for using the cash basis of accounting. All governmental funds had total receipts of \$25,404,048 and disbursements of \$25,551,044. The General Fund had an increase in fund balance of \$875,515 due to a combination of factors. Even though there was a reduction of expenditures, revenues also decreased due to State reductions. The Bond Retirement Fund had a decrease in fund balance of \$93,834 because the tax rate has been reduced to 1.75 mills. This rate will be reviewed annually until the refunding bonds are retired in fiscal year 2008. The Permanent Improvement Fund had an increase in fund balance of \$379,289. This fund received \$719,173 in proceeds of the \$1,275,000 energy conservation loan issued during 2006.

General Fund Budgeting Highlights

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

During the course of 2006, the School District amended its General Fund budget. The School District uses a modified site-based budgeting technique which is designed to tightly control total site budgets but provide flexibility for site management.

For the General Fund, budget basis receipts were \$20,899,689, below original estimates of \$20,921,634. The \$21,945 difference was mainly due to slight overestimation of receipts.

The School District's ending unobligated General Fund balance was \$2,718,717.

Debt Administration

At June 30, 2006, the School District had the following outstanding obligations:

Table 4
 Outstanding Debt, at Fiscal Year End

	<u>Governmental Activities</u>	
	<u>2006</u>	<u>2005</u>
2002 School Improvement Refunding Bonds:		
Serial Bonds	\$960,000	\$1,895,000
Capital Appreciation Bonds at Maturity	690,000	690,000
2003 Energy Conservation Bonds	690,000	735,000
2006 Energy Conservation Loan	719,173	0
Lunchroom Loan	31,200	40,800
Totals	<u>\$3,090,373</u>	<u>\$3,360,800</u>

Marietta City School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

On December 1, 2002, the School District issued \$4,690,000 in general obligation bonds, with a discount of \$295,000, to retire \$4,395,000 of outstanding school improvement bonds. \$4,504,661 was paid to bondholders on January 2, 2003, to retire the 1993 school improvement bonds. The School District decreased its total debt service payments by \$251,650 as a result of the current refunding. The refunding bonds issue included serial and capital appreciation bonds in the amount of \$3,705,000 and \$690,000, respectively. The capital appreciation bonds will mature in fiscal year 2008.

On August 22, 2003, the School District issued \$821,529 in School Energy Conservation Improvement Bonds under the House Bill 264 School Energy Conservation Financing Program.

During fiscal year 2006, the School District received \$719,173 in proceeds from a \$1,275,000 energy conservation loan. The loan was used to replace heating systems at Harmar, Phillips, and Putnam Elementary schools and the High School Vocational building. It was also utilized for lighting retrofits and heating controls throughout the School District and for restroom renovations at the High School.

During fiscal year 2005, the School District obtained a \$48,000 five-year interest free loan to finance a point-of-sale equipment purchase for its lunchroom. \$800 payments are made monthly toward the loan.

Current Issues

Over the past several years, the School District has remained in a difficult financial position with an ending cash balance less than recommended. Although the School District finally reached the recommended cash balance at the end of the fiscal year, the School District is projected to spend more than it receives starting with fiscal year 2007. Due to static State revenues, changes in the law which reduces the business tax base, and the overall economic climate, the School District will remain in this position for the foreseeable future until new funding can be assured. The School District is also faced with either renewing or replacing a temporary five year levy that expires on December 31, 2007.

Based on the current financial situation, and the uncertainty of funding, the School District will be challenged to maintain the current program and staffing levels. Additional staff and program reductions may have to be made in the future in order to balance the budget.

The Board of Education and administration of the School District must maintain careful financial planning and prudent fiscal management in order to balance the budget annually.

Contacting the School 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 School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact David B. Combs, Treasurer/CFO at Marietta City School District, 11 Academy Drive, Marietta, Ohio 45750, or E-Mail at MA_DAVIDC@SEOVEC.ORG.

Marietta City School District, Ohio

Statement of Net Assets - Cash Basis

June 30, 2006

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$5,614,940</u>
Net Assets	
Restricted for:	
Capital Projects	\$920,917
Debt Service	911,680
Textbooks	137,351
Budget Stabilization	79,089
Bus Purchases	4,838
Other Purposes	763,225
Unrestricted	<u>2,797,840</u>
<i>Total Net Assets</i>	<u>\$5,614,940</u>

See accompanying notes to the basic financial statements

Marietta City School District, Ohio

*Statement of Activities - Cash Basis
For the Fiscal Year Ended June 30, 2006*

	Program Cash Receipts				Net (Disbursements)
	Cash	Charges for	Operating Grants,	Capital	Receipts and
					Disbursements
			and Interest	Contributions	Net Assets
					Governmental
					Activities
Governmental Activities					
Instruction:					
Regular	\$10,407,657	\$510,272	\$430,445	\$0	(\$9,466,940)
Special	3,196,051	44,132	1,698,059	0	(1,453,860)
Vocational	76,450	0	13,252	0	(63,198)
Adult/Continuing	72,582	0	70,708	0	(1,874)
Support Services:					
Pupils	1,226,690	475	114,022	0	(1,112,193)
Instructional Staff	1,564,241	0	549,999	0	(1,014,242)
Board of Education	80,680	0	0	0	(80,680)
Administration	1,915,477	59,029	130,120	0	(1,726,328)
Fiscal	476,761	0	0	0	(476,761)
Business	260,756	0	0	0	(260,756)
Operation and Maintenance of Plant	2,194,522	0	27,681	0	(2,166,841)
Pupil Transportation	1,162,285	34,795	72,813	15,157	(1,039,520)
Central	82,176	0	14,798	0	(67,378)
Operation of Non-Instructional Services:					
Food Service Operations	731,577	406,908	352,618	0	27,949
Other	122,282	1,644	136,463	0	15,825
Extracurricular Activities	494,372	122,939	0	0	(371,433)
Capital Outlay	486,111	0	0	0	(486,111)
Principal Retirement	989,600	0	0	0	(989,600)
Interest and Fiscal Charges	70,436	0	0	0	(70,436)
<i>Totals</i>	<u>\$25,610,706</u>	<u>\$1,180,194</u>	<u>\$3,610,978</u>	<u>\$15,157</u>	<u>(20,804,377)</u>
General Receipts					
Property Taxes Levied for:					
General Purposes					10,602,230
Debt Service					857,221
Grants and Entitlements not Restricted to Specific Programs					8,718,872
Investment Earnings					187,603
Receipts from Sale of Capital Assets					148,492
Receipts from Sale of Notes					719,173
Payments in Lieu of Taxes					71,289
Miscellaneous					160,504
<i>Total General Receipts</i>					<u>21,465,384</u>
<i>Change in Net Assets</i>					661,007
<i>Net Assets Beginning of Year</i>					<u>4,953,933</u>
<i>Net Assets End of Year</i>					<u><u>\$5,614,940</u></u>

See accompanying notes to the financial statements

Marietta City School District, Ohio
Statement of Cash Basis Assets and Fund Balances
Governmental Funds
June 30, 2006

	General	Bond Retirement	Permanent Improvement	Other Governmental Funds	Total Governmental Funds
Assets					
Equity in Pooled Cash and Cash Equivalents	\$2,649,882	\$911,680	\$696,613	\$903,183	\$5,161,358
Restricted Assets:					
Equity in Pooled Cash and Cash Equivalents	445,582	0	0	0	445,582
<i>Total Assets</i>	<u>\$3,095,464</u>	<u>\$911,680</u>	<u>\$696,613</u>	<u>\$903,183</u>	<u>\$5,606,940</u>
Fund Balances					
Reserved for Encumbrances	\$252,538	\$0	\$461,522	\$193,892	\$907,952
Reserved for Capital Improvements	224,304	0	0	0	224,304
Reserved for Textbooks	137,351	0	0	0	137,351
Reserved for Budget Stabilization	79,089	0	0	0	79,089
Reserved for School Bus Purchase	4,838	0	0	0	4,838
Unreserved, Undesignated, Reported in:					
General Fund	2,397,344	0	0	0	2,397,344
Special Revenue Funds	0	0	0	709,291	709,291
Capital Projects Funds	0	0	235,091	0	235,091
Debt Service Fund	0	911,680	0	0	911,680
<i>Total Fund Balances</i>	<u>\$3,095,464</u>	<u>\$911,680</u>	<u>\$696,613</u>	<u>\$903,183</u>	<u>\$5,606,940</u>

See accompanying notes to the basic financial statements

Marietta City School District, Ohio
*Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
June 30, 2006*

Total Governmental Fund Balances	\$5,606,940
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*Amounts reported for governmental activities in the statement of
net assets are different because*

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

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Net Assets of Governmental Activities	<u><u>\$5,614,940</u></u>
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See accompanying notes to the basic financial statements

Marietta City School District, Ohio

Statement of Cash Receipts, Cash Disbursements and Changes in Cash Basis Fund Balances

Governmental Funds

For the Fiscal Year Ended June 30, 2006

	General	Bond Retirement	Permanent Improvement	Other Governmental Funds	Total Governmental Funds
Receipts					
Taxes	\$10,602,230	\$857,221	\$0	\$0	\$11,459,451
Payments in Lieu of Taxes	71,289	0	0	0	71,289
Intergovernmental	9,505,351	87,437	0	2,741,215	12,334,003
Investment Earnings	158,718	28,885	0	11,004	198,607
Charges for Services	0	0	0	406,908	406,908
Tuition and Fees	419,985	0	0	169,214	589,199
Extracurricular Activities	0	0	0	184,087	184,087
Miscellaneous	142,116	0	0	18,388	160,504
<i>Total Receipts</i>	<u>20,899,689</u>	<u>973,543</u>	<u>0</u>	<u>3,530,816</u>	<u>25,404,048</u>
Disbursements					
Current:					
Instruction:					
Regular	9,775,524	0	0	607,426	10,382,950
Special	2,247,900	0	0	938,997	3,186,897
Vocational	76,306	0	0	0	76,306
Adult/Continuing	0	0	0	72,352	72,352
Support Services:					
Pupils	1,120,592	0	0	103,142	1,223,734
Instructional Staff	997,963	0	0	559,075	1,557,038
Board of Education	80,680	0	0	0	80,680
Administration	1,715,436	0	0	194,847	1,910,283
Fiscal	459,188	16,941	0	0	476,129
Business	259,895	0	0	0	259,895
Operation and Maintenance of Plant	2,162,150	0	0	28,325	2,190,475
Pupil Transportation	1,150,271	0	0	7,882	1,158,153
Central	69,417	0	0	12,759	82,176
Operation of Non-Instructional Services	0	0	0	853,457	853,457
Extracurricular Activities	291,884	0	0	202,488	494,372
Capital Outlay	0	0	486,111	0	486,111
Debt Service:					
Principal Retirement	0	980,000	0	9,600	989,600
Interest and Fiscal Charges	0	70,436	0	0	70,436
<i>Total Disbursements</i>	<u>20,407,206</u>	<u>1,067,377</u>	<u>486,111</u>	<u>3,590,350</u>	<u>25,551,044</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>492,483</u>	<u>(93,834)</u>	<u>(486,111)</u>	<u>(59,534)</u>	<u>(146,996)</u>
Other Financing Sources (Uses)					
Sale of Capital Assets	2,265	0	146,227	0	148,492
Notes Issued	0	0	719,173	0	719,173
Advances In	58,939	0	0	36,078	95,017
Advances Out	(36,059)	0	0	(58,958)	(95,017)
Transfer In	422,887	0	0	64,999	487,886
Transfer Out	(65,000)	0	0	(118)	(65,118)
<i>Total Other Financing Sources (Uses)</i>	<u>383,032</u>	<u>0</u>	<u>865,400</u>	<u>42,001</u>	<u>1,290,433</u>
<i>Net Change in Fund Balance</i>	875,515	(93,834)	379,289	(17,533)	1,143,437
<i>Fund Balances Beginning of Year - Restated (Note 3)</i>	<u>2,219,949</u>	<u>1,005,514</u>	<u>317,324</u>	<u>920,716</u>	<u>4,463,503</u>
<i>Fund Balances End of Year</i>	<u>\$3,095,464</u>	<u>\$911,680</u>	<u>\$696,613</u>	<u>\$903,183</u>	<u>\$5,606,940</u>

See accompanying notes to the financial statements

Marietta City School District, Ohio
*Reconciliation of the Statement of Cash Receipts, Cash Disbursements and Changes
in Cash Basis 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 \$1,143,437

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

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

(482,430)

Change in Net Assets of Governmental Activities

\$661,007

See accompanying notes to the financial statements

Marietta City School District, Ohio
*Statement of Cash Receipts, Cash Disbursements and Changes
in Cash Basis Fund Balance - Budget and Actual (Budget Basis)
General Fund
For the Fiscal Year Ended June 30, 2006*

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget Positive (Negative)
Receipts				
Taxes	\$10,207,673	\$10,602,230	\$10,602,230	\$0
Payments in Lieu of Taxes	45,000	71,289	71,289	0
Intergovernmental	9,564,141	9,505,351	9,505,351	0
Investment Earnings	108,000	158,718	158,718	0
Tuition and Fees	428,924	419,985	419,985	0
Miscellaneous	567,896	142,116	142,116	0
<i>Total Receipts</i>	<u>20,921,634</u>	<u>20,899,689</u>	<u>20,899,689</u>	<u>0</u>
Disbursements				
Current:				
Instruction:				
Regular	8,458,861	10,026,081	9,793,529	232,552
Special	1,962,624	2,342,044	2,253,624	88,420
Vocational	79,549	82,031	78,179	3,852
Support Services:				
Pupils	960,790	1,203,953	1,161,265	42,688
Instructional Staff	968,413	1,116,560	1,031,168	85,392
Board of Education	103,309	103,844	81,158	22,686
Administration	1,387,941	1,766,944	1,725,294	41,650
Fiscal	426,531	500,610	467,125	33,485
Business	237,837	289,115	261,560	27,555
Operation and Maintenance of Plant	1,974,053	2,512,676	2,392,279	120,397
Pupil Transportation	965,945	1,213,011	1,175,583	37,428
Central	60,047	71,396	71,305	91
Non-Instructional Services	3,640	3,640	0	3,640
Extracurricular Activities	64,750	312,793	291,884	20,909
<i>Total Disbursements</i>	<u>17,654,290</u>	<u>21,544,698</u>	<u>20,783,953</u>	<u>760,745</u>
<i>Excess of Receipts Under Disbursements</i>	<u>3,267,344</u>	<u>(645,009)</u>	<u>115,736</u>	<u>760,745</u>
Other Financing Sources (Uses)				
Proceeds from Sale of Capital Assets	5,000	2,265	2,265	0
Other Financing Uses	(5,503,945)	(1,405,798)	0	1,405,798
Advances In	47,719	58,939	58,939	0
Advances Out	0	(36,059)	(36,059)	0
Transfer In	0	422,887	422,887	0
Transfer Out	(29,089)	(144,089)	(65,000)	79,089
<i>Total Other Financing Sources (Uses)</i>	<u>(5,480,315)</u>	<u>(1,101,855)</u>	<u>383,032</u>	<u>1,484,887</u>
<i>Net Change in Fund Balance</i>	<u>(2,212,971)</u>	<u>(1,746,864)</u>	<u>498,768</u>	<u>2,245,632</u>
<i>Fund Balance Beginning of Year</i>	<u>1,895,320</u>	<u>1,895,320</u>	<u>1,895,320</u>	<u>0</u>
Prior Year Encumbrances Appropriated	<u>324,629</u>	<u>324,629</u>	<u>324,629</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u>\$6,978</u>	<u>\$473,085</u>	<u>\$2,718,717</u>	<u>\$2,245,632</u>

See accompanying notes to the basic financial statements

Marietta City School District, Ohio
Statement of Fund Net Assets - Cash Basis
Internal Service Fund
June 30, 2006

	Vision Insurance
Current Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$8,000</u>
Net Assets	
Unrestricted	<u>\$8,000</u>

See accompanying notes to the basic financial statements

Marietta City School District, Ohio
Statement of Cash Receipts, Cash
Disbursements and Changes in Fund Net Assets - Cash Basis
Internal Service Fund
For the Fiscal Year Ended June 30, 2006

	Vision Insurance
Operating Receipts	
Charges for Services	\$100,297
Operating Disbursements	
Purchased Services	34,900
Claims	125,059
<i>Total Operating Expenses</i>	159,959
<i>Change before Transfers</i>	(59,662)
Transfers Out	(422,768)
<i>Change in Net Assets</i>	(482,430)
<i>Net Assets Beginning of Year</i>	490,430
<i>Net Assets End of Year</i>	\$8,000

See accompanying notes to the basic financial statements

Marietta City School District, Ohio
Statement of Fiduciary Net Assets - Cash Basis
Agency Funds
June 30, 2006

Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$84,289</u>
Net Assets	
Restricted for Students	<u>\$84,289</u>

See accompanying notes to the basic financial statements

Marietta City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

Note 1 - Description of the School District and Reporting Entity

Marietta City School 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 School District operates under a locally-elected five-member Board form of government and provides educational services as authorized by State statute and federal guidelines. This Board of Education controls the School District's 6 instructional facilities staffed by 110 classified employees and 215 certified personnel, who provide services to 3,023 students and other community members.

Reporting Entity

A reporting entity is composed of the primary government, component units and other organizations included ensuring that the basic financial statements are not misleading. The primary government of the School District consists of all funds, departments, boards and agencies that are not legally separate from the School District. For Marietta City School District, this includes general operations, food service, and student-related activities. The following activities are also included within the reporting entity.

Parochial School - Within the School District boundaries, St. Mary's School is operated through the Steubenville Catholic Diocese. Current State legislation provides funding to this parochial school. These monies are received and disbursed on behalf of the parochial school by the Chief Fiscal Officer of the School District, as directed by the parochial school. This activity is reflected in a special revenue fund for financial reporting purposes.

The School District participates in four jointly governed organizations and one insurance purchasing pool. These organizations are the Southeastern Ohio Voluntary Education Cooperative, the Washington County Career Center, the Coalition of Rural and Appalachian Schools, the South Eastern Ohio Special Education Regional Resource Center, and the Ohio School Boards Association Workers' Compensation Group Rating Program. These organizations are presented in Notes 15 and 16 to the basic financial statements.

Note 2 - Summary of Significant Accounting Policies

As discussed further in Note 2.C, these financial statements are presented on a cash basis of accounting. This cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. In the government-wide financial statements and the fund financial statements for the proprietary fund, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. Following are the more significant of the School District's accounting policies.

A. Basis of Presentation

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

Marietta City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The activity of the internal service fund is eliminated to avoid “doubling up” receipts and disbursements. The statements distinguish between those activities of the School District that are governmental in nature and those that are considered business-type activities. Governmental activities generally are financed through taxes, intergovernmental receipts or other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services, if any. The School District does not report any business-type activities.

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

Fund Financial Statements

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

B. Fund Accounting

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

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

General Fund The General Fund accounts for all financial resources except for restricted resources requiring a separate accounting. The General Fund balance is available for any purpose provided it is disbursed or transferred according to Ohio law.

Bond Retirement Fund The Bond Retirement Fund accounts for the accumulation of resources for, and the payment of, principal and interest on long-term debt and related costs.

Marietta City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

Permanent Improvement Fund This fund accounts for the acquisition, construction, or improvement of capital facilities of governmental activities.

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

Proprietary Fund Type Proprietary fund reporting focuses on the determination of the changes in net assets and financial position. Proprietary funds are classified as enterprise or internal service; the School District has no enterprise funds.

Internal Service Fund The Internal Service Fund accounts for the financing of services provided by one department or agency to other departments or agencies of the School District on a cost reimbursement basis. The School District's only internal service fund accounts for the operation of the School District's self-insurance program for vision claims.

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

C. Basis of Accounting

The School District's financial statements are prepared using the cash basis of accounting. Except for modifications having substantial support, receipts are recorded in the School District's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred. Any such modifications made by the School District are described in the appropriate section in this note.

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

D. Budgetary Process

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount the Board of Education may appropriate. The appropriations resolution is the Board's authorization to spend resources and sets annual limits on cash disbursements plus encumbrances at the level of control selected by the Board. The legal level of control has been established by the Board at the fund level for all funds. Budgetary allocations at the function and object level within all funds are made by the Treasurer.

Marietta City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

The certificate of estimated resources may be amended during the fiscal year if projected increases or decreases in receipts are identified by the Treasurer. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the amended certificate of estimated resources in effect at the time final appropriations were passed by the Board.

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

E. Cash, Cash Equivalents, and Investments

To improve cash management, cash received by the School District is pooled and invested. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the School District's records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents".

Investments of the School District's cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months that were not purchased from the pool are reported as investments.

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or negative receipts (contra revenue), respectively.

During fiscal year 2006, investments were limited to STAROhio. STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio 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 STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on June 30, 2006.

Following Ohio statutes, the Board of Education specified the funds to receive an allocation of interest earnings. Interest receipts credited to the General Fund during fiscal year 2006 was \$158,718, including \$77,184 assigned from other School District funds.

F. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, laws of other governments, or imposed by law through constitutional provisions or enabling legislation. Restricted assets include amounts required by statute to be set-aside by the School District for the creation of a reserve for budget stabilization, for the purchase of textbooks, and for the acquisition or construction of capital assets. Restricted assets also represent unexpended grants restricted for the purchase of buses and textbooks. See Note 12 for additional information regarding these set-asides.

Marietta City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

G. Inventory and Prepaid Items

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

H. Capital Assets

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

I. Interfund Receivables/Payables

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

J. Accumulated Leave

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

K. Employer Contributions to Cost-Sharing Pension Plans

The School District recognizes the disbursement for employer contributions to cost-sharing pension plans when they are paid. As described in Notes 9 and 10, the employer contributions include portions for pension benefits and for postretirement health care benefits.

L. Long-term Obligations

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

M. Net Assets

Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes include resources restricted for food service operations, music and athletic programs, and federal and state grants restricted to cash disbursement for specified purposes. The School District's policy is to first apply restricted resources when a cash disbursement is incurred for purposes for which both restricted and unrestricted net assets are available. The government-wide statement of net assets reports \$2,817,100 of restricted net assets, of which none is restricted by enabling legislation.

N. Fund Balance Reserves

The School District reserves any portion of fund balances which is not available for appropriation or which is legally segregated for a specific future use. Unreserved fund balance indicates that portion of fund balance which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, capital improvements, textbooks, budget stabilization, and school bus purchases.

Marietta City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

The reserve for budget stabilization represents money set-aside to protect against cyclical changes in receipts and disbursements.

O. Interfund Transactions

Exchange transactions between funds are reported as receipts in the seller funds and as disbursements in the purchaser funds. Subsidies from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating receipts/cash disbursements in proprietary funds. Repayments from funds responsible for particular cash disbursements to the funds that initially paid for them are not presented in the financial statements.

Note 3 – Restatement of Prior Year Balances

The following restatements of June 30, 2005 fund balances were made due to a change in the recording of interfund payables and receivables and the addition of the Permanent Improvement Fund as a major fund:

	General	Other Governmental Funds
Fund Balance at June 30, 2005	\$2,260,725	\$1,197,264
Interfund Receivable/Payable	(40,776)	40,776
Addition of Major Fund		(317,324)
Restated Fund Balance at July 1, 2006	\$2,219,949	\$920,716

Note 4 - Budgetary Basis of Accounting

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

Net Change in Fund Balance	
Cash Basis	\$875,515
Encumbrances	(376,747)
Budget Basis	\$498,768

Note 5 - Deposits and Investments

Monies held by the School District are classified by State statute into three categories.

Marietta City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

Active monies are public monies determined to be necessary to meet current demands upon the School District treasury. Active monies must be maintained either as cash in the School 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 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 monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts, including passbook accounts.

Interim monies held by the School District can be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security 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 the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAROhio).

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within five years from the date of purchase, unless matched to a specific obligation or debt of the School District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions.

Marietta City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

Deposits Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year end, \$5,678,434 of the School District's bank balance of \$5,878,434 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the School District's name.

The School District has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the School District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

Investments As of June 30, 2006, the School District had an investment in STAROhio. The carrying and fair value of this investment was \$2,612, with an average maturity of 34.77 days. This investment is in an internal investment pool.

Credit Risk STAR Ohio carries a rating of AAAm by Standard and Poor's. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The School District has no investment policy that would further limit its investment choices.

Concentration of Credit Risk The School District places no limit on the amount it may invest in any one rated in the highest category at the time of purchase by at least one nationally recognized standard rating service.

Note 6 - Property Taxes

Property taxes are levied and assessed on a calendar year basis, while the School District fiscal year runs from July through June. First-half tax collections are received by the School 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 School 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.

Marietta City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

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, 2005. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-three 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 School District prior to June 30.

The School District receives property taxes from Washington County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2006, are available to finance fiscal year 2006 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

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

	2005 Second- Half Collections		2006 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential And Other Real Estate	\$381,973,190	85%	\$387,971,600	88%
Public Utility Personal	15,494,880	3%	14,992,920	3%
Tangible Personal Property	50,988,190	12%	39,283,040	9%
	<u>\$448,456,260</u>	<u>100%</u>	<u>\$442,247,560</u>	<u>100%</u>

Tax Rate per \$1,000 of Assessed Valuation	\$43.40	\$45.84
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Note 7 - Interfund Balances

Unpaid interfund cash advances at June 30, 2006, were as follows:

	Receivables	Payables
General Fund	\$17,896	\$0
Nonmajor Special Revenue Funds:		
Public School Support	0	269
State Grant Funds	0	5,782
Federal Grant Funds	0	11,845
Total Special Revenue Funds	0	17,896
Total All Funds	<u>\$17,896</u>	<u>\$17,896</u>

Marietta City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

Note 8 - Risk Management

A. Property and Liability

The School 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 School District contracted with Utica National Insurance Group for general liability, vehicle, and property insurance. Coverage provided by the Utica National Insurance Group is as follows:

Building and Contents-replacement cost (\$5,000 deductible)	\$46,402,800
Boiler and Machinery (\$5,000 deductible)	46,402,800
Inland Marine:	
Cameras and audio-visual equipment (\$250 deductible)	50,000
Signs (\$250 deductible)	30,000
Music Instruments and Band Uniforms (\$250 deductible)	500,000
Computers per Building (\$100 deductible)	
Hardware	75,000
Software	10,000
Extra Expense	10,000
Miscellaneous School Equipment and Property (\$250 deductible)	500,000
Valuable Papers & Records per Building (\$100 deductible)	100,000
Accounts Receivable (no deductible)	50,000
Crime (no deductible) -	
Public Employee Dishonesty	100,000
Money and Securities -	
Inside Premises - Per Occurrence	25,000
Outside Premises - Per Messenger	25,000
Forgery or Alteration	100,000
Automobile Liability (no deductible):	
Bodily Injury and Property Damage - combined single limit	1,000,000
Medical Payments - each person	5,000
Hired Auto Liability	1,000,000
Non-owned Auto Liability	1,000,000
Hired Car Physical Damage	50,000
General Liability (no deductible):	
Each Occurrence	1,000,000
Aggregate Limit	3,000,000
Medical Expense Limit - per person/accident	5,000
Employee Benefits Liability (\$1,000 deductible):	
Per Claim	1,000,000
Aggregate Limit	3,000,000
Educators Legal Liability (\$5,000 deductible):	
Per Claim	1,000,000
Aggregate Limit	3,000,000
Umbrella:	

Marietta City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

Each Occurrence	2,000,000
Aggregate Limit	2,000,000
Retention	10,000

Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There has been no significant reduction in insurance coverage from coverage in fiscal year 2006.

B. Workers' Compensation

For fiscal year 2006, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 16). The intent of the GRP is to achieve a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. GRP then calculates total savings and each participant's individual performance is compared to the overall Plan's savings percentage. A participant then either receives money from or contributes to GRP's equity pooling fund. This equity pooling arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria.

C. Employee Benefits

Vision insurance is offered to employees through a self-insurance internal service fund. Monthly premiums for the cost of claims are remitted to the fiscal agent who in turn pays the claims on the School District's behalf. The claims liability of \$5,085, which is based on an estimate provided by the third party administrator, includes unpaid claim costs and estimates of costs relating to incurred but not reported claims. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. A comparison of self-insurance fund cash and investments to the actuarially-measured liability as of June 30 follows:

	Cash and Investments	Actuarial Liabilities
2005	\$490,430	\$26,008
2006	8,000	5,085

Note 9 - Defined Benefit Pension Plans

A. State Teachers Retirement System

The School 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, by calling (614) 227-4090, or by visiting the STRS Ohio Web site at www.strs.org.

Marietta City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

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. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2005, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations 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 School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2006, 2005, and 2004 were \$1,321,943, \$1,299,893, and \$1,340,061 respectively; 82.07 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004. Contributions to the DC and Combined Plans for fiscal year 2006 were \$2,000 made by the School District and \$13,634 made by the plan members.

B. School Employees Retirement System

The School 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 43215-3476, or by calling (800)878-5853 or by visiting the SERS website at ohsers.org.

Marietta City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School 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. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005, and 2004 were \$304,143, \$341,675 and \$280,416 respectively; 42.90 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2006, four members of the Board of Education elected Social Security. The Board's liability is 6.2 percent of wages paid.

Note 10 - Postemployment Benefits

The School District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-certificated 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.

All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care cost will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio 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 one percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount equaled \$101,688 for fiscal year 2006.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005, (the latest information available) the balance in the Fund was \$3.3 billion. For the year ended June 30, 2005, net health care costs paid by STRS were \$254,780,000 and STRS had 115,395 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 health care premium. The portion is based on years of service, Medicare eligibility, and retirement status.

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, compared to 3.43 percent of covered payroll for 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 two percent of each employer's SERS salaries. For the School District, the amount contributed to fund health care benefits,

Marietta City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

including the surcharge, during the 2006 fiscal year equaled \$161,753.

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 the projected claims less premium contributions for the next year. Expenses for health care at June 30, 2005, (the latest information available), were \$178,221,113. At June 30, 2005, SERS had net assets available for payment of health care benefits of \$267.5 million. SERS has approximately 58,123 participants receiving health care benefits.

Note 11 - Long-Term Debt

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

	Principal Outstanding 6/30/05	Additions	Reductions	Principal Outstanding 6/30/06	Amounts Due in One Year
Governmental Activities					
2002 School Improvement Refunding Bonds:					
Serial Bonds - 2%-2.75%	\$1,895,000	\$0	\$935,000	\$960,000	\$960,000
Capital Appreciation Bonds at Maturity - 3.91%	690,000	0	0	690,000	0
2003 Energy Conservation Improvement Bonds - 4.54%	735,000	0	45,000	690,000	40,000
Total General Obligation Bonds	<u>3,320,000</u>	<u>0</u>	<u>980,000</u>	<u>2,340,000</u>	<u>1,000,000</u>
2006 Energy Conservation Loan - 4.75%	0	719,173	0	719,173	0
Loan Payable - 0%	40,800	0	9,600	31,200	9,600
Total Governmental Activities Long-Term Obligations	<u>\$3,360,800</u>	<u>\$719,173</u>	<u>\$989,600</u>	<u>\$3,090,373</u>	<u>\$1,009,600</u>

On December 1, 2002, the School District issued \$4,690,000 in general obligation bonds, with a discount of \$295,000, to retire \$4,395,000 of outstanding school improvement bonds. \$4,504,661 was paid to bondholders on January 2, 2003, to retire the 1993 school improvement bonds. The current refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$109,661. The School District decreased its total debt service payments by \$251,650 as a result of the current refunding. The School District also incurred an economic gain (difference between the present values of the old and new debt service payments) of \$237,973.

The refunding bonds issue included serial and capital appreciation bonds in the amount of \$3,705,000 and \$690,000, respectively. The bonds are being retired from the Bond Retirement debt service fund. The serial general obligation bonds were sold at a premium of \$35,767 with issuance costs associated with the refunding bonds at \$80,960. The refunding bonds are not subject to redemption prior to stated maturity.

The capital appreciation bonds were sold at a premium of \$154,854. The capital appreciation bonds will mature in fiscal year 2008. The maturity amount of the bonds is \$985,000. The refunding bonds are not subject to redemption prior to stated maturity.

Marietta City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

On August 22, 2003, the School District issued \$821,529 in School Energy Conservation Improvement Bonds under the House Bill 264 School Energy Conservation Financing Program. The bonds will be repaid using energy savings.

During fiscal year 2006, the School District obtained a School Energy Conservation Loan. The School District was approved to borrow up to \$1,275,000; however, only \$719,173 has been drawn down as of June 30, 2006. Since the full amount of the loan had not been drawn as of fiscal year end, an amortization schedule is not yet available.

The School District obtained a \$48,000 interest free loan to purchase a point-of-sale system for the lunchroom. \$9,600 payments will be made yearly for five years.

The overall debt margin of the School District as of June 30, 2006, was \$33,605,297, with an unvoted debt margin of \$339,392.

Principal and interest requirements to retire the general obligation debt outstanding at June 30, 2006, were as follows:

Fiscal Year Ending	Refunding Bonds					
	Serial		Capital Appreciation		Energy Conservation	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$960,000	\$13,200	\$0	\$0	\$40,000	30,418
2008	0	0	690,000	295,000	50,000	28,375
2009	0	0	0	0	50,000	26,105
2010	0	0	0	0	50,000	23,835
2011	0	0	0	0	50,000	21,565
2012-2016	0	0	0	0	310,000	68,329
2017-2018	0	0	0	0	140,000	6,583
	\$960,000	\$13,200	\$690,000	\$295,000	\$690,000	\$205,210

The interest on the capital appreciation bonds represents the accretion of the deep-discounted bonds from the initial value at the time of issuance to their value at final maturity.

Note 12 - Set-Aside Calculations

State statute annually requires the School District to set aside in the General Fund an amount based on a statutory formula to purchase textbooks and other instructional materials and an equal amount to acquire and construct capital improvements. Amounts not spent by year end or offset by similarly restricted resources received during the year must be held in cash at year end and carried forward for the same uses in future years. In prior fiscal years, the School District was also required to set aside money for budget stabilization. At June 30, 2006, only the unspent portion of certain workers' compensation refunds continues to be set-aside.

The following cash basis information describes the change in the year end set-aside amounts for textbooks and capital acquisition. State statute requires disclosing this information.

Marietta City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

	Budget Stabilization Reserve	Capital Improvements Reserve	Textbooks Instructional Materials Reserve
Set-aside Reserve Balance as of June 30, 2005	\$79,089	\$126,622	\$153,047
Current Year Set-aside Requirement	0	444,214	444,214
Qualifying Disbursements	0	(346,532)	(459,910)
Total	<u>\$79,089</u>	<u>\$224,304</u>	<u>\$137,351</u>
Set-aside Balance Carry Forward to Future Fiscal Years	<u>\$79,089</u>	<u>\$224,304</u>	<u>\$137,351</u>

Note 13 - Interfund Transfers

During the fiscal year, the General Fund transferred \$65,000 to the Athletic and Music Special Revenue Fund to reduce deficit cash balances. Also, the ABE In-Service and Other Miscellaneous Special Revenue Funds transferred \$117 and \$1, respectively, to the General Fund to close out the funds. Also, the Self-Insurance Internal Service Fund transferred \$422,768 to the General Fund to return residual monies left after eliminating the health and dental self-insurance programs.

Note 14 - Contingencies

A. Grants

The School District receives financial assistance from federal and State agencies in the form of grants. Disbursing grant funds generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit. Any disallowed claims resulting from such audits could become a liability. However, in the opinion of management, any such disallowed claims through June 30, 2006, will not have a material adverse effect on the School District.

B. Litigation

The School District is currently not a party to any legal proceedings.

Note 15 - Jointly Governed Organizations

A. Southeastern Ohio Voluntary Education Cooperative (SEOVEC)

SEOVEC was created as a regional council of governments pursuant to State statutes. SEOVEC is a computer consortium formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. SEOVEC has 38 participants consisting of 30 school districts and 8 educational service centers. SEOVEC is governed by a governing board which is selected by the member districts. SEOVEC possesses its own budgeting and taxing authority. During fiscal year 2006, the School District paid \$68,601 to SEOVEC. To obtain financial information write to the Southeastern Ohio Voluntary Education Cooperative at 221 North Columbus Road, Athens, Ohio 45701.

Marietta City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

B. Washington County Career Center

The Washington County Career Center is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one representative from each of the six participating school districts' elected boards and one representative from the Washington County Educational Service Center's board. The Board possesses its own budgeting and taxing authority. To obtain financial information write to the Washington County Career Center, Mary Bee, Treasurer, at 21740 State Route 676, Marietta, Ohio 45750.

C. Coalition of Rural and Appalachian Schools

The Coalition of Rural and Appalachian Schools is a jointly governed organization including over 100 hundred school districts in southeastern Ohio. The Coalition is operated by a Board which is composed of fourteen members. The board members are composed of one superintendent from each county elected by the school districts within that county. The Council provides various in-service for school district administrative personnel; gathers of data regarding conditions of education in the region; cooperates with other professional groups to assess and develop programs designed to meet the needs of member districts; and provides staff development programs for school district personnel. The Council is not dependent on the continued participation of the School District and the School District does not maintain an equity interest in or financial responsibility for the Council. The School District's membership fee was \$300 for fiscal year 2006.

D. South Eastern Ohio Special Education Regional Resource Center (SEOSERRC)

SEOSERRC is a special education service center which selects its own board, adopts its own budget and receives direct Federal and State grants for its operation. The jointly-governed organization was formed for the purpose of initiating, expanding and improving special education programs and services for children with disabilities and their parents. SEOSERRC is governed by a board composed of superintendents of participating schools, parents of children with disabilities, representatives of chartered nonpublic schools, representatives of county boards of MR/DD, Ohio University, and the Southeast Regional Professional Development Center whose terms rotate every year. The degree of control exercised by any participating school district is limited to its representation on the Board. During fiscal year 2006, the School District paid \$5,922 to SEOSERRC. Financial information can be obtained by contacting Bryan Swann, Treasurer, at the Athens-Meigs Educational Service Center, 507 Richland Avenue, Suite 108, Athens, Ohio 45701.

Note 16 - Insurance Purchasing Pool

Ohio School Boards Association Workers' Compensation Group Rating Program

The School District participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by a three member Board of directors consisting of the President, the President-Elect, and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

Marietta City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

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**MARIETTA CITY SCHOOL DISTRICT
WASHINGTON COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2006**

FEDERAL GRANTOR <i>Pass-through Grantor</i> Program Title	Federal CFDA Number	Pass-through Entity Number	Receipts	Noncash Receipts	Disbursements	Noncash Disbursements
UNITED STATES DEPARTMENT OF AGRICULTURE						
<i>Passed through Ohio Department of Education:</i>						
Food Donation	10.550	N/A	\$	\$ 81,838	\$	\$ 81,838
Nutrition Cluster:						
School Breakfast Program	10.553	05PU-2005	8,149		8,149	
		05PU-2006	91,261		91,261	
Total School Breakfast Program			99,410	0	99,410	0
National School Lunch Program	10.555	LLP4-2005	37,002		37,002	
		LLP4-2006	187,706		187,706	
Total National School Lunch Program			224,708	0	224,708	0
Special Milk Program for Children	10.556	02PU-2006	1,063		1,063	
Total Nutrition Cluster			325,181	0	325,181	0
Total United States Department of Agriculture			325,181	81,838	325,181	81,838
UNITED STATES DEPARTMENT OF EDUCATION						
<i>Passed through Ohio Department of Education:</i>						
Adult Education - State Grant Program	84.002	ABS1-2004C	0		1,184	
		ABS1-2005	17,277		17,277	
		ABS1-2006	67,304		67,304	
Total Adult Education - State Grant Program			84,581	0	85,765	0
Title I Grants to Local Educational Agencies	84.010	C1S1-2005	69,558		111,873	
		C1S1-2006	648,931		616,859	
		C1SD-2005	2,574		8,708	
		C1SD-2006	33,251		31,112	
Total Title I Grants to Local Educational Agencies			754,314	0	768,552	0
Special Education - Grants to States	84.027	6BSD-2005	2,081		9,824	
		6BSD-2006	16,998		10,982	
		6BSF-2005	77,690		139,359	
		6BSF-2006	644,576		618,666	
Total Special Education - Grants to States			741,345	0	778,831	0
Safe and Drug-Free Schools and Communities - State Grants	84.186	DRS1-2005	457		3,672	
		DRS1-2006	18,193		17,264	
Total Safe and Drug-Free Schools and Communities - State Grants			18,650	0	20,936	0
Education for Homeless Children and Youth	84.196	HCS1-2005	6,834		7,257	
		HCS1-2006	35,500		18,685	
Total Education for Homeless Children and Youth			42,334	0	25,942	0
State Grants for Innovative Programs	84.298	C2S1-2005	(459)		191	
		C2S1-2006	9,153		8,772	
Total State Grants for Innovative Programs			8,694	0	8,963	0
Education Technology State Grants	84.318	TJS1-2005	(2,648)		0	
		TJS1-2006	12,934		12,266	
Total Education Technology State Grants			10,286	0	12,266	0
Advanced Placement Program	84.330	AVS1-2001	950		950	
Improving Teacher Quality State Grants	84.367	TRS1-2005	18,434		26,138	
		TRS1-2006	165,866		154,091	
Total Improving Teacher Quality State Grants			184,300	0	180,229	0
Hurricane Education Recovery	84.938	HR01-2006	1,000		1,000	
Total United States Department of Education			1,846,454	0	1,883,434	0

**MARIETTA CITY SCHOOL DISTRICT
WASHINGTON COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2006
(Continued)**

FEDERAL GRANTOR <i>Pass-through Grantor</i> Program Title	Federal CFDA Number	Pass-through Entity Number	Receipts	Noncash Receipts	Disbursements	Noncash Disbursements
UNITED STATES DEPARTMENT OF HEALTH AND HUMAN SERVICES						
<i>Passed through Washington County</i>						
<i>Department of Job and Family Services:</i>						
Temporary Assistance for Needy Families	93.558	N/A	0		7,207	
<i>Passed through Ohio Department of Mental Retardation and Developmental Disabilities:</i>						
Medical Assistance Program - State Children's Insurance Program	93.767	N/A	17,622		17,622	
Medical Assistance Program	93.778	N/A	<u>107,496</u>		<u>107,496</u>	
Total United States Department of Health and Human Services			<u>125,118</u>	<u>0</u>	<u>132,325</u>	<u>0</u>
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE						
<i>Passed through Ohio Department of Education:</i>						
Learn and Serve America - School and Community Based Programs	94.004	SVS1-2005 SVS1-2006	1,040 <u>11,000</u>		1,543 <u>13,338</u>	
Total Learn and Serve America - School and Community Based Programs			<u>12,040</u>	<u>0</u>	<u>14,881</u>	<u>0</u>
Total Corporation for National and Community Service			<u>12,040</u>	<u>0</u>	<u>14,881</u>	<u>0</u>
UNITED STATES DEPARTMENT OF HOMELAND SECURITY						
<i>Passed through the Ohio Emergency Management Agency:</i>						
Disaster Grants - Public Assistance	97.036	N/A	<u>5,546</u>		<u>10,266</u>	
Total United States Department of Homeland Security			<u>5,546</u>	<u>0</u>	<u>10,266</u>	<u>0</u>
Total Federal Awards Receipts and Expenditures			<u>\$ 2,314,339</u>	<u>\$ 81,838</u>	<u>\$ 2,366,087</u>	<u>\$ 81,838</u>

The Notes to the Schedule of Federal Awards Receipts and Expenditures are an integral part of this Schedule.

**MARIETTA CITY SCHOOL DISTRICT
WASHINGTON COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
JUNE 30, 2006**

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – GOVERNMENT DONATED FOOD PROGRAM

Program regulations do not require the School District to maintain separate inventory records for purchased food 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 the commodities received.

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

NOTE C – TRANSFERS AND REFUNDS

During fiscal year 2006, the Ohio Department of Education (ODE) authorized the School District to carryover monies from the prior fiscal year to the current fiscal year. Authorized carryover monies are shown as a reduction of federal revenues in the program that the transfer was made from and increased federal revenue in the program that received the transfer or carryover. Also during 2006, the School District refunded to the Ohio Department of Education monies that were not expended during the period of availability. Refunds to the Ohio Department of Education are shown as a reduction of federal revenue in the accompanying Schedule. A detailed listing of the transfers/carryovers and refund is as follows:

CFDA Number	Program Title	Pass-Through Entity Number	Transfers Out	Transfers In	Refunds
84.010	Title I Grants to Local Educational Agencies	C1S1-2005	\$ 13,442	\$	\$
84.010	Title I Grants to Local Educational Agencies	C1S1-2006		13,442	
84.010	Title I Grants to Local Educational Agencies	C1SD-2005	1,426		
84.010	Title I Grants to Local Educational Agencies	C1SD-2006		1,426	
84.186	Safe and Drug-Free Schools and Communities- State Grants	DRS1-2005	1,343		
84.186	Safe and Drug-Free Schools and Communities- State Grants	DRS1-2006		1,343	
84.298	State Grants for Innovative Programs	C2S1-2005	459		
84.298	State Grants for Innovative Programs	C2S1-2006		459	
84.318	Education Technology State Grants	TJS1-2005	2,648		
84.318	Education Technology State Grants	TJS1-2006		2,648	
84.367	Improving Teacher Quality State Grants	TRS1-2005	7,566		
84.367	Improving Teacher Quality State Grants	TRS1-2006		7,566	
94.004	Learn and Serve America-School and Community Based Programs	SVS1-2005			35
		Total	<u>\$ 26,884</u>	<u>\$26,884</u>	<u>\$ 35</u>

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**Auditor of State
Betty Montgomery**

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

Marietta City School District
Washington County
11 Academy Drive
Marietta, Ohio 45750

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Marietta City School District, Washington County, Ohio (the School District), as of and for the year ended June 30, 2006, which collectively comprise the School District's basic financial statements and have issued our report thereon dated December 19, 2006, wherein we noted the School District uses a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School District's internal control over financial reporting to determine our auditing procedures to express our opinions on the basic financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a 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 material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the School District's management dated December 19, 2006, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the School District's basic financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matter that we must report under *Government Auditing Standards*, which is described in the accompanying Schedule of Findings as item 2006-001.

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

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

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

Betty Montgomery
Auditor of State

December 19, 2006



Auditor of State Betty Montgomery

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

Marietta City School District
Washington County
11 Academy Drive
Marietta, Ohio 45750

To the Board of Education:

Compliance

We have audited the compliance of Marietta City School District, Washington County, Ohio (the School District), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to each of its major federal programs for the year ended June 30, 2006. The Summary of Auditor's Results section of the accompanying Schedule of Findings identifies the School District's major federal programs. The School District's management is responsible for complying with the requirements of laws, regulations, contracts and grants applicable to each major federal program. Our responsibility is to express an opinion on the School District's compliance based on our audit.

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

In our opinion, the School District complied, in all material respects, with the requirements referred to above that apply to each of its major federal programs for the year ended June 30, 2006.

Internal Control over Compliance

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

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Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. However, we noted matters involving the internal control over federal compliance not requiring inclusion in this report, that we reported to the School District's management in a separate letter dated December 19, 2006.

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

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

Betty Montgomery
Auditor of State

December 19, 2006

**MARIETTA CITY SCHOOL DISTRICT
WASHINGTON COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2006**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Nutrition Cluster – CFDA #'s 10.553, 10.555 and 10.556 Special Education -Grants to States – CFDA #84.027
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

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

FINDING NUMBER 2006-001

Noncompliance Citation

Ohio Rev. Code Section 117.38 provides that each public office shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. Ohio Administrative Code Section 117-2-03 further clarifies the requirements of Ohio Rev. Code Section 117.38.

**MARIETTA CITY SCHOOL DISTRICT
WASHINGTON COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2006
(Continued)**

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

FINDING NUMBER 2006-001 (Continued)

Noncompliance Citation – Ohio Rev. Code Section 117.38 (Continued)

Ohio Admin. Code Section 117-2-03(B) requires the School District to file its annual financial report pursuant to generally accepted accounting principles. However, the School District prepared its financial statements in accordance with standards established by the Auditor of State for governmental entities not required to prepare annual reports in accordance with generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. Pursuant to Ohio Rev. Code Section 117.38, the School District may be fined and subject to various other administrative remedies for its failure to file the required financial report.

We recommend the School District take the necessary steps to ensure that the annual financial report is prepared on a generally accepted accounting principles basis.

Officials' Response: GAAP statements are not prepared as a cost savings to the School District.

3. FINDINGS FOR FEDERAL AWARDS

None.

**MARIETTA CITY SCHOOL DISTRICT
WASHINGTON COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A-133 §.315(b)
JUNE 30, 2006**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2005-001	A noncompliance citation was issued under Ohio Rev. Code Section 117.38 for not filing GAAP financial statements.	No	Not Corrected: This issue is repeated in the current audit Schedule of Findings as item 2006-001.



Mary Taylor, CPA
Auditor of State

MARIETTA CITY SCHOOL DISTRICT

WASHINGTON 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
JANUARY 25, 2007**