



Mary Taylor, CPA  
Auditor of State



**MARTINS FERRY CITY SCHOOL DISTRICT  
BELMONT COUNTY**

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# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

Martins Ferry City School District  
Belmont County  
633 Hanover Street  
Martins Ferry, Ohio 43935

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 the Martins Ferry City School District, Belmont 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Martins Ferry City School District, Belmont County, Ohio, as of June 30, 2006, and the respective changes in financial position thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2007, 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.

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

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

A handwritten signature in cursive script that reads "Mary Taylor".

**Mary Taylor, CPA**  
Auditor of State

January 31, 2007

**Martins Ferry City School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2006*  
*Unaudited*

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The discussion and analysis of the Martins Ferry 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 notes to the basic financial statements and 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:

- In total, net assets increased \$837,861.
- General revenues accounted for \$10,651,336 in revenues or 72.8 percent of all revenues. Program specific revenues in the form of charges for services and sales; operating grants and contributions; and capital grants and contributions accounted for \$3,986,371 or 27.2 percent of total revenues of \$14,637,707.
- Total assets of governmental activities increased \$907,768 primarily due to an increase in construction in progress capital assets that were recorded for the classroom facilities project as well as for assets associated with the stadium project that were completed and placed in service during fiscal year 2006.
- The School District had \$13,799,846 in expenses relating to governmental activities; only \$3,986,371 of these expenses were offset by program specific charges for services and sales; operating grants and contributions; and capital grants and contributions. General revenues of \$10,651,336 were adequate to provide for these programs.
- The School District's major funds are the General Fund and the Classroom Facilities Capital Projects Fund. The General Fund had \$10,643,323 in revenues and \$10,516,479 in expenditures, and the fund balance, including sale of capital assets increased \$126,963. The Classroom Facilities Fund had \$8,885,448 in revenues and \$3,941,810 in expenditures, and the fund balance increased \$4,943,638 due to the receipt of intergovernmental revenue for the state share of the project.

### **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 Martins Ferry 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 and Statement of Activities 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 at the School District's most significant funds with all other non-major funds presented in total in one column.

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***Reporting the School District as a Whole***

*Statement of Net Assets and Statement of Activities*

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

These two statements report the 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 and the Statement of Activities, all of the School District's activities are considered to be Governmental Activities.

- Governmental Activities – All of the School District's programs and services are reported here including instruction, support services, operation of non-instructional services, food 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 8. 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 and the Classroom Facilities 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 using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. 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 relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements.



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**Reporting the District's Fiduciary Responsibilities**

The School District acts in a trustee capacity as an agent for individuals, private organizations, other government units and/or other funds. These activities are reported in agency funds. The School District's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets. This activity is excluded from the School District's other financial statements because the assets cannot be utilized by the School District to finance its operations.

**The School District as a Whole**

Recall that the Statement of Net Assets 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.

**Table 1**  
**Net Assets**

	Governmental Activities		
	2006	2005	Net Change
<b>Assets</b>			
Current and Other Assets	\$41,743,318	\$45,542,930	(\$3,799,612)
Capital Assets	7,766,001	3,058,621	4,707,380
<b>Total Assets</b>	<b>49,509,319</b>	<b>48,601,551</b>	<b>907,768</b>
<b>Liabilities</b>			
Long-Term Liabilities	12,535,408	12,228,280	307,128
Other Liabilities	5,036,839	5,274,060	(237,221)
<b>Total Liabilities</b>	<b>17,572,247</b>	<b>17,502,340</b>	<b>69,907</b>
<b>Net Assets</b>			
Invested in Capital Assets Net of Related Debt	5,887,843	2,872,066	3,015,777
Restricted	25,531,004	28,341,357	(2,810,353)
Unrestricted (Deficit)	518,225	(114,212)	632,437
<b>Total Net Assets</b>	<b>\$31,937,072</b>	<b>\$31,099,211</b>	<b>\$837,861</b>

Total assets increased \$907,768. Current assets decreased by \$3,799,612 which is due primarily to decreases in cash and investments and intergovernmental receivables related to the classroom facilities project as work is being completed. Capital assets increased \$4,707,380 due primarily to construction in progress that was recorded for the classroom facilities project as well as for assets associated with the stadium project that was completed and placed in service during fiscal year 2006.

Total liabilities increased \$69,907. The increase is due primarily to the final drawdown of the capital lease for the stadium project being made during fiscal year 2006 that is offset by debt repayments made on the capital lease and the general obligation bonds that were issued for the local share of the classroom facilities project.

Net Assets increased \$837,861 due primarily to the capital assets that were recorded for the stadium project and the classroom facilities project that is offset by a decrease in restricted net assets for the classroom facilities project that will be funded by the Ohio School Facilities Commission.

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Table 2 shows the changes in net assets for fiscal year 2006 compared to fiscal year 2005.

**Table 2**  
**Changes in Net Assets**

	Governmental Activities		
	2006	2005	Net Change
<b>Revenues</b>			
<i>Program Revenues</i>			
Charges for Services and Sales	\$880,513	\$970,807	(\$90,294)
Operating Grants and Contributions	3,099,636	2,506,767	592,869
Capital Grants and Contributions	6,222	11,591	(5,369)
<i>Total Program Revenues</i>	<u>3,986,371</u>	<u>3,489,165</u>	<u>497,206</u>
<i>General Revenues</i>			
Property Taxes	3,379,820	3,160,012	219,808
Grants and Entitlements	6,654,412	34,851,119	(28,196,707)
Investment Earnings	568,098	265,856	302,242
Other	49,006	11,602	37,404
<i>Total General Revenues</i>	<u>10,651,336</u>	<u>38,288,589</u>	<u>(27,637,253)</u>
<b>Total Revenues</b>	<b><u>14,637,707</u></b>	<b><u>41,777,754</u></b>	<b><u>(27,140,047)</u></b>
<b>Expenses</b>			
Instruction:			
Regular	5,736,074	5,659,514	76,560
Special	1,756,036	1,762,023	(5,987)
Vocational	240,427	211,862	28,565
Support Services:			
Pupil	529,566	528,296	1,270
Instructional Staff	713,185	718,568	(5,383)
Board of Education	72,002	57,925	14,077
Administration	1,045,753	1,113,842	(68,089)
Fiscal	319,045	267,534	51,511
Operation and Maintenance of Plant	1,113,009	1,044,321	68,688
Pupil Transportation	433,423	534,208	(100,785)
Central	27,302	25,145	2,157
Operation of Non-Instructional Services	114,709	93,768	20,941
Food Service Operations	452,784	433,561	19,223
Extracurricular Activities	313,900	284,266	29,634
Intergovernmental	413,779	0	413,779
Interest and Fiscal Charges	518,852	270,778	248,074
<b>Total Expenses</b>	<b><u>13,799,846</u></b>	<b><u>13,005,611</u></b>	<b><u>794,235</u></b>
<i>Change in Net Assets</i>	<i>837,861</i>	<i>28,772,143</i>	<i>(27,934,282)</i>
Net Assets Beginning of Year	<u>31,099,211</u>	<u>2,327,068</u>	<u>28,772,143</u>
<b>Net Assets End of Year</b>	<b><u>\$31,937,072</u></b>	<b><u>\$31,099,211</u></b>	<b><u>\$837,861</u></b>

In 2006, the School District had a decrease in general revenue - grants and entitlements pertaining to the Classroom Facilities Project for the entire project that was recognized as revenue during fiscal year 2005. The construction is on-going during fiscal year 2006. During 2005, the School District entered into an

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*Management's Discussion and Analysis*  
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agreement with the Ohio School Facilities Commission that would provide in excess of \$28 million from the Commission for the project which once recognized is included in the net assets of the District. Investment earnings increased significantly during fiscal year 2006 with the project dollars being invested.

Instructional programs comprise approximately 56 percent of total governmental program expenses. Of the instructional expenses, approximately 74 percent is for regular instruction, 23 percent for special instruction, and 3 percent for vocational instruction. Total expenses for the School District increased \$794,235 due primarily to costs associated with the classroom facilities project. During fiscal year 2006, the School District had \$413,779 in intergovernmental expenditures for infrastructure related to the school facilities project that will be donated to the City of Martins Ferry for future maintenance upon completion of the project.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services for fiscal year 2006 compared to fiscal year 2005. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

**Table 3**  
**Governmental Activities**

	Total Cost of Services		Net Cost of Services	
	2006	2005	2006	2005
Instruction:				
Regular	\$5,736,074	\$5,659,514	\$4,430,246	\$4,437,810
Special	1,756,036	1,762,023	470,444	710,841
Vocational	240,427	211,862	140,987	162,142
Support Services:				
Pupil	529,566	528,296	491,463	481,118
Instructional Staff	713,185	718,568	298,163	339,719
Board of Education	72,002	57,925	72,002	57,925
Administration	1,045,753	1,113,842	977,215	1,088,032
Fiscal	319,045	267,534	319,045	255,018
Operation and Maintenance of Plant	1,113,009	1,044,321	1,113,009	1,040,375
Pupil Transportation	433,423	534,208	427,201	522,617
Central	27,302	25,145	6,786	6,757
Operation of Non-Instructional Services	114,709	93,768	(17,501)	(1,934)
Food Service Operations	452,784	433,561	(67,486)	(15,562)
Extracurricular Activities	313,900	284,266	219,270	160,810
Intergovernmental	413,779	0	413,779	0
Interest and Fiscal Charges	518,852	270,778	518,852	270,778
Total Expenses	\$13,799,846	\$13,005,611	\$9,813,475	\$9,516,446

The dependence upon tax revenues and state subsidies for governmental activities is apparent, as 71 percent of total expenses are supported through taxes and other general revenues.

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*Management's Discussion and Analysis*  
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*Unaudited*

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**The School District Funds**

Information about the School District's major funds starts on page 20. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and other financing sources of \$24,042,316 and expenditures of \$19,013,450. The net change in fund balance for the year for all governmental funds, including other financing sources and uses was an increase of \$5,028,866. Of the overall increase, \$4,943,638 was in the Classroom Facilities Fund where the construction project is being accounted for.

***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 fiscal year 2006, the School District amended its general fund appropriations, and the budgetary statement reflects both the original and final appropriated amounts. There were no significant changes between the original and the final budget.

**Capital Assets and Debt Administration**

***Capital Assets***

At the end of fiscal year 2006, the School District had \$7,766,001 invested in land; land improvements; buildings and improvements; construction in progress; furniture, fixtures, machinery and equipment; and vehicles. See Note 10 for more detailed information of the School District's capital assets.

***Debt***

At June 30, 2006, the School District has \$10,380,000 in outstanding general obligation bonds that were issued for the local share of the classroom facilities project, as well as \$1,056,000 in outstanding capital leases related to the stadium construction project. See Note 17 for more detailed information related to the School District's debt.

**Economic Factors**

The School District added several new positions during the 2006 fiscal year. The School District, building on previous years, expanded the Special Education Program, added Multi-Handicapped Programs at the High School. The School District expanded the Severe Behavioral program at the High School by adding a new teacher. The district hired several educational aides during the year to help with the Special Education as well as in the elementary classrooms.

The outlook for the School District is a bright one, as a major school building project looms on the horizon. The School District passed a 5.59 mill 28 years Construction Bond Levy on November 4, 2004. The Construction Bond Levy will generate revenue to repay the ten million three hundred eighty thousand dollars (\$10,380,000) outstanding general obligation bonds. This levy allowed for the School District to participate in the Ohio School Facilities Commission (OSFC) Classroom Facilities Assistance Program.

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The OSFC share of this project is in excess of Twenty Eight Million Dollars. This project will allow the School District to close 5 current school buildings and house the students in two new buildings. The projected date of completion is December 2007. The project is well under way, with all contracts for the project being awarded during fiscal year 2006.

The Football Stadium Project was completed in August of 2005. This project included the reconstruction of the visitor side bleachers, two new locker room and restroom facilities.

**Contacting the School District's Financial Management**

This financial report is designed to provide our citizens, 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 Albert Skulich, Treasurer/CFO at Martins Ferry City School District, 633 Hanover Street, Martins Ferry, Ohio 43935.

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**Martins Ferry City School District**  
*Statement of Net Assets*  
June 30, 2006

	<u>Governmental Activities</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$9,231,487
Investments	9,964,193
Accrued Interest Receivable	133,582
Intergovernmental Receivable	18,464,178
Prepaid Items	12,986
Materials and Supplies Inventory	11,171
Property Taxes Receivable	3,758,102
Deferred Charges	167,619
Non-Depreciable Capital Assets	4,757,281
Depreciable Capital Assets, Net	<u>3,008,720</u>
 Total Assets	 <u>49,509,319</u>
<b>Liabilities</b>	
Accounts Payable	65,470
Contracts Payable	516,322
Accrued Wages and Benefits Payable	950,777
Intergovernmental Payable	187,688
Accrued Interest Payable	40,488
Vacation Benefits Payable	57,749
Matured Severance Payable	23,358
Retirement Incentive Payable	13,000
Retainage Payable	71,360
Deferred Revenue	3,110,627
Long-Term Liabilities:	
Due Within One Year	214,798
Due In More Than One Year	<u>12,320,610</u>
 Total Liabilities	 <u>17,572,247</u>
<b>Net Assets</b>	
Invested in Capital Assets, Net of Related Debt	5,887,843
Restricted for:	
Debt Service	114,136
Capital Projects	25,098,370
Food Service	152,356
Classroom Facilities Maintenance	84,104
State Programs	43,864
Federal Programs	24,943
Other Purposes	13,231
Unrestricted	<u>518,225</u>
 Total Net Assets	 <u><u>\$31,937,072</u></u>

See accompanying notes to the basic financial statements

**Martins Ferry City School District**  
*Statement of Activities*  
For the Fiscal Year Ended June 30, 2006

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
<b>Governmental Activities</b>					
Instruction:					
Regular	\$5,736,074	\$608,647	\$697,181	\$0	(\$4,430,246)
Special	1,756,036	0	1,285,592	0	(470,444)
Vocational	240,427	0	99,440	0	(140,987)
Support Services:					
Pupil	529,566	0	38,103	0	(491,463)
Instructional Staff	713,185	0	415,022	0	(298,163)
Board of Education	72,002	0	0	0	(72,002)
Administration	1,045,753	0	68,538	0	(977,215)
Fiscal	319,045	0	0	0	(319,045)
Operation and Maintenance of Plant	1,113,009	0	0	0	(1,113,009)
Pupil Transportation	433,423	0	0	6,222	(427,201)
Central	27,302	0	20,516	0	(6,786)
Operation of Non-Instructional Services	114,709	0	132,210	0	17,501
Food Service Operations	452,784	177,236	343,034	0	67,486
Extracurricular Activities	313,900	94,630	0	0	(219,270)
Intergovernmental	413,779	0	0	0	(413,779)
Interest and Fiscal Charges	518,852	0	0	0	(518,852)
<i>Total Governmental Activities</i>	<u>\$13,799,846</u>	<u>\$880,513</u>	<u>\$3,099,636</u>	<u>\$6,222</u>	<u>(9,813,475)</u>

**General Revenues**

Property Taxes Levied for General Purposes	2,630,392
Property Taxes Levied for Capital Outlay	96,050
Property Taxes Levied for Debt Service	583,113
Property Taxes Levied for Building Maintenance	70,265
Grants and Entitlements not Restricted to Specific Programs	6,654,412
Gifts and Donations	7,225
Investment Earnings	568,098
Gain on Sale of Capital Assets	28,065
Miscellaneous	13,716

*Total General Revenues* 10,651,336

Change in Net Assets 837,861

*Net Assets Beginning of Year - Restated See Note 3* 31,099,211

*Net Assets End of Year* \$31,937,072

See accompanying notes to the basic financial statements



**Martins Ferry City School District**  
*Balance Sheet*  
**Governmental Funds**  
*June 30, 2006*

	General	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>				
Equity in Pooled Cash and Cash Equivalents	\$1,425,857	\$7,032,665	\$772,965	\$9,231,487
Investments	393,147	8,599,063	971,983	9,964,193
Receivables:				
Property Taxes	2,897,433	0	860,669	3,758,102
Intergovernmental	0	18,343,266	120,912	18,464,178
Interfund	5,000	0	0	5,000
Accrued Interest	52,564	81,018	0	133,582
Prepaid Items	12,986	0	0	12,986
Materials and Supplies Inventory	963	0	10,208	11,171
<i>Total Assets</i>	<u>\$4,787,950</u>	<u>\$34,056,012</u>	<u>\$2,736,737</u>	<u>\$41,580,699</u>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Accounts Payable	\$40,306	\$0	\$25,164	\$65,470
Contracts Payable	0	516,322	0	516,322
Accrued Wages and Benefits	781,101	0	169,676	950,777
Interfund Payable	0	0	5,000	5,000
Intergovernmental Payable	152,208	0	35,480	187,688
Matured Severance Payable	23,358	0	0	23,358
Retirement Incentive Payable	13,000	0	0	13,000
Retainage Payable	0	71,360	0	71,360
Deferred Revenue	2,716,406	18,379,305	810,030	21,905,741
<i>Total Liabilities</i>	<u>3,726,379</u>	<u>18,966,987</u>	<u>1,045,350</u>	<u>23,738,716</u>
<b>Fund Balances</b>				
Reserved for Encumbrances	1,789	1,559,835	75,448	1,637,072
Reserved for Property Taxes	212,107	0	62,857	274,964
Unreserved, Undesignated, Reported in:				
General Fund	847,675	0	0	847,675
Special Revenue Funds	0	0	252,167	252,167
Debt Service Fund	0	0	370,065	370,065
Capital Projects Funds	0	13,529,190	930,850	14,460,040
<i>Total Fund Balances</i>	<u>1,061,571</u>	<u>15,089,025</u>	<u>1,691,387</u>	<u>17,841,983</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$4,787,950</u>	<u>\$34,056,012</u>	<u>\$2,736,737</u>	<u>\$41,580,699</u>

See accompanying notes to the basic financial statements

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

**Total Governmental Fund Balances** \$17,841,983

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

Capital assets used in governmental activities are not financial  
resources and therefore are deferred in the funds. 7,766,001

Other long-term assets are not available to pay for current-  
period expenditures and therefore are deferred in the funds:

Grants	18,355,484	
Property Taxes	372,511	
Interest	<u>67,119</u>	
 Total		 18,795,114

Unamortized issuance costs represent deferred charges which  
do not provide current financial resources and, therefore, are  
not reported in the funds. 167,619

Long-term liabilities are not due and payable in the current period and  
and therefore are not reported in the funds:

General Obligation Bonds	10,380,000	
Bond Premium	339,413	
Compensated Absences	759,995	
Vacation Benefits Payable	57,749	
Accrued Interest Payable	40,488	
Capital Leases	<u>1,056,000</u>	
 Total		 <u>(12,633,645)</u>

*Net Assets of Governmental Activities* \$31,937,072

See accompanying notes to the basic financial statements

**Martins Ferry City School District**  
*Statement of Revenues, Expenditures and Changes in Fund Balances*  
*Governmental Funds*  
*For the Fiscal Year Ended June 30, 2006*

	General	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>				
Property Taxes	\$2,688,122	\$0	\$775,731	\$3,463,853
Intergovernmental	7,174,197	8,516,162	2,600,435	18,290,794
Interest	159,407	356,136	354	515,897
Tuition and Fees	608,647	0	0	608,647
Extracurricular Activities	0	0	94,630	94,630
Contributions and Donations	0	0	7,225	7,225
Charges for Services	12,884	0	177,236	190,120
Miscellaneous	66	13,150	500	13,716
<i>Total Revenues</i>	<u>10,643,323</u>	<u>8,885,448</u>	<u>3,656,111</u>	<u>23,184,882</u>
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	5,196,932	0	674,823	5,871,755
Special	1,070,664	0	782,230	1,852,894
Vocational	230,667	0	11,360	242,027
Support Services:				
Pupil	500,127	0	36,589	536,716
Instructional Staff	331,607	0	395,644	727,251
Board of Education	71,198	0	0	71,198
Administration	1,004,328	0	67,948	1,072,276
Fiscal	270,415	13,723	35,657	319,795
Operation and Maintenance of Plant	1,071,510	0	10,049	1,081,559
Pupil Transportation	469,048	0	0	469,048
Central	8,202	0	21,293	29,495
Operation of Non-Instructional Services	0	0	133,146	133,146
Food Service Operations	0	0	457,563	457,563
Extracurricular Activities	188,730	0	107,941	296,671
Capital Outlay	103,051	3,928,087	705,413	4,736,551
Intergovernmental	0	0	413,779	413,779
Debt Service:				
Principal Retirement	0	0	191,000	191,000
Interest and Fiscal Charges	0	0	510,726	510,726
<i>Total Expenditures</i>	<u>10,516,479</u>	<u>3,941,810</u>	<u>4,555,161</u>	<u>19,013,450</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	126,844	4,943,638	(899,050)	4,171,432
<b>Other Financing Sources</b>				
Sale of Capital Assets	119	0	57,315	57,434
Inception of Capital Lease	0	0	800,000	800,000
<i>Total Other Financing Sources</i>	<u>119</u>	<u>0</u>	<u>857,315</u>	<u>857,434</u>
<i>Net Change in Fund Balances</i>	126,963	4,943,638	(41,735)	5,028,866
<i>Fund Balances Beginning of Year</i>	<u>934,608</u>	<u>10,145,387</u>	<u>1,733,122</u>	<u>12,813,117</u>
<i>Fund Balances End of Year</i>	<u>\$1,061,571</u>	<u>\$15,089,025</u>	<u>\$1,691,387</u>	<u>\$17,841,983</u>

See accompanying notes to the basic financial statements

**Martins Ferry City School District**  
*Reconciliation of the Changes in Fund Balances  
of Governmental Funds to the Statement of Activities  
For the Fiscal Year Ended June 30, 2006*

**Net Change in Fund Balances - Total Governmental Funds** \$5,028,866

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital asset additions exceeded depreciation in the current period.

Fixed Assets Additions	4,996,970	
Depreciation	(260,221)	
Total	4,736,749	4,736,749

Capital Assets removed from the Capital Asset Account on the statement of Net Assets netted against Sale of Capital Assets (29,369)

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

Property Taxes	(84,033)	
Grants	(8,530,524)	
Interest	52,201	
Tuition and Fees	(12,884)	
Total	(8,575,240)	(8,575,240)

Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

General Obligation Bonds	140,000	
Capital Leases	51,000	
Total	191,000	191,000

Interest is reported as an expenditure when due in the governmental funds, but is accrued on outstanding debt on the statement of activities. The amortization of premiums are reported on the statement of activities.

Accrued Interest	(14,548)	
Premium	12,688	
Total	(1,860)	(1,860)

Inception of capital leases are reported as other financing sources in the governmental funds, but the inception increases long term liabilities on the statement of activities. (800,000)

Issuance costs are reported as an expenditure when paid in governmental funds, but are amortized on the statement of activities. (6,266)

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

Vacation Benefits Payable	4,797	
Compensated Absences	289,184	
Total	293,981	293,981

*Change in Net Assets of Governmental Activities* \$837,861

See accompanying notes to the basic financial statements

**Martins Ferry City School District**  
*Statement of Revenues, Expenditures and Changes*  
*In Fund Balance - Budget (Non-GAAP Basis) and Actual*  
*General Fund*  
*For the Fiscal Year Ended June 30, 2006*

	Original Budget	Final Budget	Actual	Variance with Final Budget
<b>Revenues</b>				
Property Taxes	\$2,530,000	\$2,530,000	\$2,651,817	\$121,817
Intergovernmental	6,637,800	6,637,800	7,206,715	568,915
Interest	55,000	55,000	145,033	90,033
Tuition and Fees	694,000	694,000	608,647	(85,353)
Charges for Services	0	0	12,884	12,884
Miscellaneous	1,000	1,000	66	(934)
<i>Total Revenues</i>	<u>9,917,800</u>	<u>9,917,800</u>	<u>10,625,162</u>	<u>707,362</u>
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	5,429,000	5,338,000	5,265,907	72,093
Special	1,214,500	1,145,800	1,104,472	41,328
Vocational	218,700	237,700	231,376	6,324
Support Services:				
Pupil	515,300	521,800	519,397	2,403
Instructional Staff	378,500	369,800	343,619	26,181
Board of Education	55,900	77,100	75,108	1,992
Administration	1,075,600	1,107,200	1,055,997	51,203
Fiscal	274,400	277,000	276,240	760
Operation and Maintenance of Plant	1,061,800	1,131,600	1,112,637	18,963
Pupil Transportation	485,200	506,900	490,808	16,092
Central	7,500	8,600	8,250	350
Extracurricular Activities	206,800	216,500	193,452	23,048
Capital Outlay	53,000	105,000	103,051	1,949
<i>Total Expenditures</i>	<u>10,976,200</u>	<u>11,043,000</u>	<u>10,780,314</u>	<u>262,686</u>
Excess of Revenues Over (Under) Expenditures	<u>(1,058,400)</u>	<u>(1,125,200)</u>	<u>(155,152)</u>	<u>970,048</u>
<b>Other Financing Sources (Uses)</b>				
Sale of Capital Assets	1,000	1,000	119	(881)
Advances In	5,000	5,000	5,000	0
Advances Out	(10,000)	(10,000)	(5,000)	5,000
Total Other Financing Sources (Uses)	<u>(4,000)</u>	<u>(4,000)</u>	<u>119</u>	<u>4,119</u>
<i>Net Change in Fund Balance</i>	<u>(1,062,400)</u>	<u>(1,129,200)</u>	<u>(155,033)</u>	<u>974,167</u>
<i>Fund Balance Beginning of Year</i>	1,932,398	1,932,398	1,932,398	0
Prior Year Encumbrances Appropriated	31,806	31,806	31,806	0
<i>Fund Balance End of Year</i>	<u>\$901,804</u>	<u>\$835,004</u>	<u>\$1,809,171</u>	<u>\$974,167</u>

See accompanying notes to the basic financial statements

**Martins Ferry City School District**  
*Statement of Fiduciary Net Assets*  
*Fiduciary Fund*  
*June 30, 2006*

	<u>Agency</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	<u>\$15,937</u>
<i>Total Assets</i>	<u><u>\$15,937</u></u>
<b>Liabilities</b>	
Due to Students	<u>\$15,937</u>
<i>Total Liabilities</i>	<u><u>\$15,937</u></u>

See accompanying notes to the basic financial statements

**Martins Ferry City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2006*

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**NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY**

The Martins Ferry City School District (the "School District") is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The School District operates under a locally-elected board form of government consisting of five members elected at-large for staggered four year terms. The School District provides educational services as authorized by State statute and/or federal guidelines.

The School District was established in 1853 through the consolidation of existing land areas and school districts. The School District serves an area of approximately 12 square miles. It is located in Belmont County and includes all of the City of Martins Ferry and portions of Pease and Colerain Townships. It is staffed by 70 non-certified employees, 110 certified full-time teaching personnel and 8 administrative employees, who provide services to 1,575 students and other community members. The School District currently operates 6 instructional/support buildings.

*Reporting Entity:*

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure that the financial statements of the School District are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the School District. For the Martins Ferry City School District, this includes general operations, food service, and student related activities of the School District.

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt, or the levying of taxes. No separate governmental units meet the criteria for inclusion as a component unit.

The following activities are included within the reporting entity:

*Parochial Schools* – Within the School District boundaries, St. Mary's Central Elementary School is operated through the Steubenville Catholic Diocese; Martins Ferry Christian School is operated as a private school. Current State legislation provides funding to these parochial schools. These monies are received and distributed on behalf of the parochial schools by the Treasurer of the School District, as directed by the parochial schools. The activity of these State monies by the School Districts is reflected in a special revenue fund for financial reporting purposes.

The School District is involved with four jointly governed organizations, one related organization, and two insurance purchasing pools. These organizations are the Belmont-Harrison Vocational School District, the Ohio Mid-Eastern Regional Educational Service Agency (OME-RESA), the East Central Ohio Special Education Regional Resource Center (ECO-SERRC), the Coalition of Rural and Appalachian Schools (CORAS), the Martins Ferry Public Library, the Ohio Association of School Business Officials Workers' Compensation Group Rating Program (GRP) and the Ohio School Plan which are presented in Notes 18, 19, and 20.

**Martins Ferry City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2006*

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. Basis of Presentation**

The School District's basic financial statements consist of government-wide 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.

***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 statement of net assets presents the financial condition of the governmental activities of the School District at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the School District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the School District. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the School District.

***Fund Financial Statements*** During the 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 year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are two categories of funds: governmental and fiduciary.

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



**Martins Ferry City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2006*

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**General Fund** The General Fund is the operating fund of the School District and is used to account for all financial resources except those required to be accounted for in another fund.

**Classroom Facilities Fund** The Classroom Facilities Capital Projects Fund is used to account for the local and state share of a school facilities project through the Ohio School Facilities Commission. The local share of the project is funded through a bond levy.

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

**Fiduciary Fund Types** 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. The School District has no trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's agency fund accounts for student activities.

### **C. Measurement Focus**

**Government-wide Financial Statements** The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the School District are included on the statement of net assets. The statement of activities presents increases (i.e., revenues) and decreases (i.e., expenses) in the total net assets.

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

### **D. Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Fiduciary funds also use the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

**Revenues - Exchange and Non-Exchange Transactions** Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, available means expected to be received within 60 days of fiscal year-end.

**Martins Ferry City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2006*

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Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On the accrual basis, revenue from property taxes are recognized in the fiscal year for which the taxes are levied (See Note 7). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

***Deferred Revenue*** Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of June 30, 2006, but which were levied to finance fiscal year 2007 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

***Expenses/Expenditures*** On the accrual basis of accounting, expenses are recognized at the time they are incurred.

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

**E. Cash and Cash Equivalents**

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

During fiscal year 2006, investments were limited to non-negotiable certificates of deposit, and Federal Home Loan Bank Bonds and Notes, Federal Farm Credit Bank Bonds, Federal Home Loan Mortgage Corporation Notes, Federal National Mortgage Association Notes, and Money Market Mutual Funds. Investments are reported at fair value. Fair value is based on quoted market price or current share price.

Following Ohio statues, the Board of Education has, by resolution, specified the fund to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2006 amounted to \$159,407, which includes \$16,044 assigned from other School District funds.

Investments of the 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 and cash equivalents.

**Martins Ferry City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2006*

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The School District reports the change in fair value of investments. The calculation of realized gains/losses is independent of the calculation of the change in the fair value of investments. The realized gains/losses of the current period include unrealized amounts from prior periods.

**F. Restricted Assets**

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other government or imposed by enabling legislation. The District has no restricted assets to report.

**G. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 2006, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

**H. Inventory**

Inventories are presented at cost on a first-in, first-out basis and are expended/expensed when used. Inventory consists of expendable supplies held for consumption and purchased food/commodities held for resale.

**I. Capital Assets**

The only capital assets of the School District are general capital assets. These assets result from expenditures in the governmental funds and are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The School District was able to estimate the historical cost for the initial reporting of assets by backtrending (i.e., estimating current replacement cost of the asset to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of \$5,000. The School District currently only capitalizes land; land improvements; buildings and improvements; construction in progress; furniture, fixtures, machinery, and equipment; and vehicles. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

**Martins Ferry City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2006*

Description	Estimated Lives
Land	N/A
Construction in Progress	N/A
Land Improvements	5-40 Years
Buildings and Improvements	20-50 Years
Furniture, Fixtures, Machinery, and Equipment	5-20 Years
Vehicles	5-10 Years

**J. Interfund Balances**

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated on the statement of net assets.

**K. Compensated Absences**

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means. The School District records a liability for accumulated unused vacation time when earned for vacation eligible employees with more than one year of service.

Sick leave benefits are accrued as a liability using the termination method. An accrual for earned sick leave is made to the extent it is probable that benefits will result in termination payments. The liability is an estimate based on the School District's past experience of making termination payments.

On the governmental fund financial statements, sick leave benefits are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "matured severance payable" in the fund from which the employee will be paid.

**L. Accrued Liabilities and Long-term Obligations**

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

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

**M. Bond Premiums and Issuance Costs**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond issuance costs and bond premiums are deferred and amortized over the term of the bonds using the straight-line method, which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium. Bond issuance costs are recorded as deferred charges and amortized over the term of the related debt.

Bond premiums are presented as an addition to the face amount of the bonds.

**Martins Ferry City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2006*

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On the governmental fund financial statements, governmental fund types recognize issuance costs and bond premiums in the current period. The face amount of the debt issue is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**N. Interfund Activity**

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

**O. Fund Balance Reserves**

The School District reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances and property taxes.

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute.

**P. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net assets restricted for other purposes include local resources restricted to expenditures for specific purposes. The government-wide statement of net assets reports \$25,531,004 of restricted net assets, of which none have resulted from enabling legislation.

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

**Q. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence.

**R. Estimates**

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

**Martins Ferry City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2006*

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**S. Budgetary Data**

All funds, other than agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated resources, 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 amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and set annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of control has been established by the Board of Education at the fund level for all funds of the School District. Any budgetary modifications at this level may only be made by resolution of the Board of Education. The treasurer is given the authority to further allocate fund appropriations within all funds. Advances in/out are not required to be budgeted since they represent a temporary cash flow resource and are intended to be repaid.

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

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

**NOTE 3 – CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENTS**

**Changes in Accounting Principle** For the fiscal year ended June 30, 2006, the School District has implemented GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries" and GASB Statement No. 44, "Economic Condition Reporting: The Statistical Section".

GASB Statement No. 42 provides guidance on the accounting treatment and financial reporting requirements for impairments of capital assets and insurance recoveries. The implementation of this statement had no effect on the financial statements.

GASB Statement No. 44 provides guidance on the reporting of statistical information of the School District. The School District does not prepare a statistical section to accompany the basic financial statements, and therefore, the implementation of this statement had no effect on the financial statements.

**Restatement of Net Assets** The School District restated beginning net assets in the amount of \$1,942,588 for the construction manager direct-pay portion of the Ohio School Facilities Grant that was inadvertently not recorded as a receivable at June 30, 2005. This amount had no effect on fund balance, as the full amount of the receivable was deferred on a modified accrual basis in the Classroom Facilities Capital Projects Fund.

**Martins Ferry City School District**  
*Notes to the Basic Financial Statements*  
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	Governmental Activities
Net Assets, June 30, 2005	\$29,156,623
Intergovernmental Receivable Restatement	1,942,588
Restated Net Assets, June 30, 2005	\$31,099,211

**NOTE 4 – FUND DEFICITS**

**A. Fund Deficits:**

At June 30, 2006, the following fund had deficit fund balance:

	Deficit Fund Balance
Poverty Based Assistance Special Revenue Fund	\$56,125

The deficit in the Poverty Based Assistance Special Revenue Fund is due to accrued liabilities that are to be paid from the subsequent year grant award.

**NOTE 5 - BUDGETARY BASIS OF ACCOUNTING**

While the School District is reporting financial position, results of operations, and changes in fund balances on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual presented for the General Fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are that:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).
4. Advances in and advances out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).
5. Adjustments to record investments at market value are reported on the balance sheet (GAAP basis), but not on the budgetary basis.

**Martins Ferry City School District**  
*Notes to the Basic Financial Statements*  
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The following table summarizes the adjustments necessary to reconcile the GAAP and budgetary basis statements for the general fund.

Net Change in Fund Balance	
GAAP Basis	\$126,963
Revenue Accruals	(16,308)
Advances In	5,000
Investment Market Value Adjustment	(1,853)
Expenditure Accruals	(252,149)
Advances Out	(5,000)
Encumbrances	<u>(11,686)</u>
Budget Basis	<u><u>(\$155,033)</u></u>

**NOTE 6 – DEPOSITS AND INVESTMENTS**

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

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;



**Martins Ferry City School District**  
*Notes to the Basic Financial Statements*  
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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;
7. The State Treasurer's investment pool (STAROhio).
8. Commercial paper and bankers acceptances if trading requirements have been met.

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. Investments may only be made through specified dealers and institutions.

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 year end, \$300,000 of the School District's bank balance of \$13,233,388 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although all statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the School District to a successful claim by FDIC.

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 the following investments:

**Martins Ferry City School District**  
*Notes to the Basic Financial Statements*  
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	Fair Value	Maturity	Percent of Total Investments	Rating	Rating Agency
Money Market Mutual Funds	\$6,591	N/A	0.10%	AAAm	Moody's
Federal Home Loan Bank - Bonds	498,125	7/30/07	7.71%	AAA	Moody's
Federal Farm Credit Bank - Bonds	748,748	2/22/07	11.58%	AAA	Moody's
Federal Home Loan Bank - Notes	708,154	7/21/06	10.96%	AAA	Moody's
Federal Home Loan Bank - Notes	397,080	8/23/06	6.14%	AAA	Moody's
Federal Home Loan Bank - Notes	174,545	7/21/06	2.70%	AAA	Moody's
Federal Home Loan Bank - Notes	398,680	7/26/06	6.17%	AAA	Moody's
Federal Home Loan Bank - Bonds	393,147	11/28/06	6.08%	AAA	Moody's
Federal Home Loan Mortgage Corporation - Notes	479,100	4/17/07	7.41%	AAA	Moody's
Federal Home Loan Mortgage Corporation - Notes	419,773	9/26/06	6.49%	AAA	Moody's
Federal Home Loan Mortgage Corporation - Notes	507,570	2/16/07	7.86%	AAA	Moody's
Federal National Mortgage Association - Notes	576,600	3/28/07	8.92%	AAA	Moody's
Federal National Mortgage Association - Notes	570,960	6/1/07	8.83%	AAA	Moody's
Federal National Mortgage Association - Notes	<u>585,120</u>	12/20/06	<u>9.05%</u>	AAA	Moody's
Totals	<u><u>\$6,464,193</u></u>		<u><u>100.00%</u></u>		

**Interest Rate Risk.** The School District's investment policy addresses interest rate risk to the extent that it allows the Treasurer to invest funds to a maximum maturity of five years, and allows for the withdrawal of funds from approved public depositories or sale of negotiable instruments prior to maturity. State statute requires that an investment mature within five years from the date of purchase, unless matched to a specific obligation or debt of the School District, and that an investment must be purchased with the expectation that it will be held to maturity.

**Credit Risk.** Ohio law requires that the money market mutual fund be rated in the highest category at the time of purchase by at least one nationally recognized standard rating service. The School District has no investment policy that would further limit its investment choices.

**Custodial Credit Risk.** For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The School District's investments are uninsured, unregistered investments that are held by the counterparty's trust department or agent in the government's name. The School District has no investment policy dealing with investment custodial risk beyond the requirement in state statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee.

**Concentration of Credit Risk.** The School District places no limit on the amount it may invest in any one issuer.

**Martins Ferry City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2006*

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**NOTE 7 - 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.

Tangible personal property tax revenue received during calendar 2006 (other than public utility property tax) represents the collection of 2006 taxes. Tangible personal property taxes received in calendar year 2006 were levied after April 1, 2005, on the value listed as of December 31, 2005. In prior years, tangible personal property was assessed at twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. The tangible personal property tax is being phased out – the assessment percentage for all property including inventory for 2006 is 18.75 percent. This will be reduced to 12.5 percent for 2007, 6.25 percent for 2008 and zero for 2009. 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 Belmont. 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.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2006 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2006, was \$212,107 in the General Fund, \$49,089 in the Debt Service Fund, and \$13,768 in the Permanent Improvement Fund. The amount available as an advance at June 30, 2005, was \$175,802 in the General Fund, \$40,659 in the Debt Service Fund, and \$11,179 in the Permanent Improvement Fund.

**Martins Ferry City School District**  
*Notes to the Basic Financial Statements*  
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On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue, while on a modified accrual basis the revenue has been deferred.

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

	<u>2005 Second Half Collections</u>		<u>2006 First Half Collections</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential And Other Real Estate	\$91,862,260	78.2%	\$92,565,360	79.9%
Public Utility Personal	18,925,530	16.1%	6,349,390	5.5%
General Business Property	6,643,010	5.7%	16,908,620	14.6%
	<u>\$117,430,800</u>	<u>100.0%</u>	<u>\$115,823,370</u>	<u>100.0%</u>
Tax Rate per \$1,000 of assessed valuation		\$43.09		\$43.09

**NOTE 8 - RECEIVABLES**

Receivables at June 30, 2006, consisted of property taxes, interfund, accrued interest, and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. A summary of the principal items of intergovernmental receivables follows:

<u>Governmental Activities:</u>	<u>Amounts</u>
Ohio School Facilities Grant	\$18,343,266
Distance Learning	15,680
Title I	44,936
Titel II-A	24,272
Part B - IDEA	36,024
Total Intergovernmental Receivables	<u>\$18,464,178</u>

**NOTE 9 – INTERNAL BALANCES**

Interfund balances at June 30, 2006 consist of the following individual interfund receivables and payables:

<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	<u>Other Nonmajor Governmental</u> <u>\$5,000</u>

The loan to the Miscellaneous Local Special Revenue Fund was made to provide operating funds until local monies were received.

**Martins Ferry City School District**  
*Notes to the Basic Financial Statements*  
For the Fiscal Year Ended June 30, 2006

**NOTE 10 – CAPITAL ASSETS**

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

	Balance 6/30/05	Additions	Deletions	Balance 6/30/06
<b>Nondepreciable Capital Assets:</b>				
Land	\$14,582	\$0	\$0	\$14,582
Construction in Progress	1,350,825	4,062,126	(670,252)	4,742,699
<b>Total Nondepreciable Capital Assets</b>	<b>1,365,407</b>	<b>4,062,126</b>	<b>(670,252)</b>	<b>4,757,281</b>
<b>Depreciable Capital Assets:</b>				
Land Improvements	269,349	0	(25,935)	243,414
Buildings and Improvements	2,558,008	1,344,182	(188,297)	3,713,893
Furniture, Fixtures, Machinery, and Equipment	1,647,132	181,550	(6,855)	1,821,827
Vehicles	809,367	79,364	(126,202)	762,529
<b>Total Depreciable Capital Assets</b>	<b>5,283,856</b>	<b>1,605,096</b>	<b>(347,289)</b>	<b>6,541,663</b>
<b>Accumulated Depreciation:</b>				
Land Improvements	(212,341)	(3,830)	25,935	(190,236)
Buildings and Improvements	(1,670,698)	(54,774)	188,297	(1,537,175)
Furniture, Fixtures, Machinery, and Equipment	(1,099,320)	(158,181)	6,855	(1,250,646)
Vehicles	(608,283)	(43,436)	96,833	(554,886)
<b>Total Accumulated Depreciation</b>	<b>(3,590,642)</b>	<b>(260,221)</b>	<b>317,920</b>	<b>(3,532,943)</b>
<b>Total Depreciable Capital Assets, Net</b>	<b>1,693,214</b>	<b>1,344,875</b>	<b>(29,369)</b>	<b>3,008,720</b>
<b>Governmental Capital Assets, Net</b>	<b>\$3,058,621</b>	<b>\$5,407,001</b>	<b>(\$699,621)</b>	<b>\$7,766,001</b>

Depreciation expense was charged to governmental functions as follows:

<b>Instruction:</b>	
Regular	\$168,661
Special	8,154
Vocational	6,177
<b>Support Services:</b>	
Pupil	1,060
Instructional Staff	3,534
Administration	5,047
Fiscal	707
Operation and Maintenance of Plant	6,735
Pupil Transportation	42,091
Food Service Operations	8,984
Operation on Non-Instructional Services	5,880
Extracurricular Activities	3,191
<b>Total Depreciation Expense</b>	<b>\$260,221</b>

During fiscal year 2006, the School District had \$413,779 in intergovernmental expenditures for infrastructure related to the school facilities project that will be donated to the City of Martins Ferry for future maintenance upon completion of the project.

**Martins Ferry City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2006*

**NOTE 11- RISK MANAGEMENT**

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2006 the School District contracted with the Selective Insurance Company of South Carolina, Westfield Insurance Company and Cincinnati Insurance for property and fleet insurance and inland marine coverage. Coverage's provided are as follows:

Building and Contents-replacement cost (\$500 deductible)	\$29,278,057
Boiler and Machinery - (\$500 deductible)	100,000
Flood Insurance - Building and Contents (\$5,000 deductible)	212,200
Automotive Liability	2,000,000
Uninsured Motorists	1,000,000

During fiscal year 2006, the School District joined together with other school districts in Ohio to participate in the Ohio School Plan (OSP), a public entity insurance purchasing pool. Each individual school district enters into an agreement with the OSP and its premium is based on types of coverage, limits of coverage, and deductibles that it selects. The School District pays this annual premium amount to the OSP (See Note 20). The types and amounts of coverage provided by the Ohio School Plan are as follows:

General Liability:	
Each Occurance	\$1,000,000
Aggregate Limit	3,000,000
Products-Completed Operations Aggregate Limit	1,000,000
Personal and Advertising Injury Limit - Each Occurance	1,000,000
Fire Damage Limit - Any One Event	500,000
Excess Liability:	
Each Occurance	1,000,000
Aggregate Limit	3,000,000
Employers Liability:	
Each Occurance	1,000,000
Disease - Each Employee	1,000,000
Violence:	
Each Occurance	1,000,000
Aggregate Limit	1,000,000

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

The School District participates in the Ohio Association of School Business Officials Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 20). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. Participants in the GRP are placed on tiers according to their loss history. Participants with low loss histories are rewarded with greater savings than participants with higher loss histories. Each participant pays its workers' compensation premium to the state based on the rate for its GRP tier rather than its individual rate. Participation in the GRP is limited to School Districts that can meet the GRP's selection criteria. The firm of Sheakley UniService, Inc. provides administration, cost control, and actuarial services to the GRP.

**Martins Ferry City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2006*

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**NOTE 12 - DEFINED BENEFIT PENSION PLANS**

**A. 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 43215-3746, by calling (800) 878-5853 or by visiting the SERS website at [ohsers.org](http://ohsers.org).

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 pension obligations to SERS for the fiscal years ended June 30, 2006, 2005, and 2004 were \$157,132, \$161,418, and \$137,534, respectively; 46.25 percent has been contributed for fiscal year 2006 and 100 percent for the fiscal years 2005 and 2004.

**B. 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](http://www.strs.org).

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

**Martins Ferry City School District**  
*Notes to the Basic Financial Statements*  
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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 \$779,368, \$731,864, and \$680,087, respectively; 83.24 percent has been contributed for fiscal year 2006 and 100 percent for the fiscal years 2005 and 2004. Contributions to the DC and Combined Plans for fiscal year 2006 were \$101 made by the School District and \$150 made by the plan members.

**NOTE 13 - POSTEMPLOYMENT BENEFITS**

The School District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio (STRS Ohio), 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 costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS 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 Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount equaled \$59,064 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



**Martins Ferry City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2006*

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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, including the surcharge, during the 2006 fiscal year equaled \$73,089.

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 for the fiscal year ended 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 14 - OTHER EMPLOYEE BENEFITS**

**A. Compensated Absences**

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws. Classified employees earn five to twenty days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time. Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave up to maximum of 46 days for all employees.

**B. Health/Life Insurance**

The School District provides medical, health, and prescription card coverage for all eligible employees through the Health Plan and Health Assurance. The Health Plan is at a premium rate of \$1,113.92 for a family plan and \$445.56 for a single plan. The Health Assurance is at a premium rate of \$1,163.95 for a family plan and \$465.48 for a single plan. The Board pays 95 percent of the premiums for either of these health insurance options for all employees who work a 35 to 40 hour week. Employees who work less than a 35 hour work week the Board's share of the premium is on a declining scale. The School District also provides dental and life insurance and accidental death and dismemberment insurance to all employees through Coresource at 100 percent Board paid. Life insurance is provided in the amount of \$40,000 for the treasurer, \$25,000 for certified and administrative employees and \$20,000 for the classified employees. Dental is at a premium of \$49.99 for either the family or single plan. Vision insurance is provided through Vision Benefits of America and the Board pays 100 percent of this premium for those on the single plan only.

**C. Retirement Incentive**

Per the provision in the agreement between the Martins Ferry City School District Board of Education and the Martins Ferry Education Association, the Martins Ferry City School District Board of Education will provide a retirement incentive of \$1,000 times each year of Martins Ferry City School service (not to exceed \$13,000) to any teaching employee who is eligible for full retirement under any of Ohio's public employee retirement systems, provided the conditions stated in the agreement on file with the School District are met. The District had \$13,000 outstanding in retirement incentives payable.

**Martins Ferry City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2006*

**NOTE 15 - CAPITAL LEASES - LESSEE DISCLOSURE**

During fiscal year 2005, the School District entered into a capital lease to finance the construction of a new grandstand facility at the stadium. The lease arrangements are through the OASBO Expanded Asset Pooled Financing Program with the Columbus Regional Airport Authority as the lessor. During fiscal year 2005, construction began on the stadium project and \$307,000 was drawn from the total approved lease amount of \$1,107,000, and during fiscal year 2006, the remaining \$800,000 was drawn on the lease and the project was completed.

The lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. In the future when capital lease payments are made, they will be reflected as debt service expenditures in the basic financial statements for the governmental funds.

The asset acquired by lease has been capitalized in government-wide financial statements governmental activities as buildings and improvements in the amount of \$1,344,182, which is equal to the present value of the minimum lease payments at the time of acquisition and the amount of additional local funds that were used to complete the project at June 30, 2006. A corresponding liability was recorded in the government-wide financial statements governmental activities for the total value of the lease. Governmental activities assets are reflected net of accumulated depreciation in the amount of \$1,319,538. Principal payments in fiscal year 2006 totaled \$51,000 in the governmental funds.

Future minimum lease payments through 2020 are as follows:

Fiscal Year Ending June 30	Principal	Interest and Fiscal Charges	Total
2007	\$57,000	\$46,690	\$103,690
2008	59,000	44,170	103,170
2009	62,000	41,561	103,561
2010	64,000	38,820	102,820
2011	66,000	35,990	101,990
2012-2016	380,000	133,260	513,260
2017-2020	368,000	41,561	409,561
Total	<u>\$1,056,000</u>	<u>\$382,052</u>	<u>\$1,438,052</u>

**Martins Ferry City School District**  
*Notes to the Basic Financial Statements*  
For the Fiscal Year Ended June 30, 2006

**NOTE 16 – CONSTRUCTION COMMITMENT**

As of June 30, 2006, the School District had contractual purchase commitments for the school facilities project. The amounts are as follows:

Contractor	Fund	Purchased Commitments	Amounts Paid as of June 30, 2006	Amounts Remaining on Contracts
<b><u>CAPITALIZED CONTRACTS:</u></b>				
<b><u>High School:</u></b>				
Colaianni Construction, Inc. - General Trades	OSFC (010)	\$9,273,000	\$0	\$9,273,000
RF Scurlock Excavating - Excavating	OSFC (010)	2,819,820	1,508,632	1,311,188
Cattrell Companies, Inc. - HVAC	OSFC (010)	4,465,000	85,685	4,379,315
Erb Electric - Electrical	OSFC (010)	2,590,070	48,083	2,541,987
W.G. Tomko, Inc. - Plumbing	OSFC (010)	925,555	0	925,555
Dalmation Fire, Inc. - Fire Protection	OSFC (010)	294,000	7,456	286,544
Mid-Atlantic Storage System, Inc. - Utilities	OSFC (010)	314,763	0	314,763
Commercial Appliance Contracts, Inc. - Food Svc Equip.	OSFC (010)	273,843	0	273,843
Farnham Equipment Company - Furnishings	OSFC (010)	563,700	0	563,700
Flag Floors - Flooring	OSFC (010)	314,000	0	314,000
R.A.M.E., Inc. - Roofing	OSFC (010)	543,000	0	543,000
<b><u>Elementary School:</u></b>				
Colaianni Construction - General Trades	OSFC (010)	3,954,000	0	3,954,000
Saup/Hartley - Roofing	OSFC (010)	302,810	0	302,810
DeGol Carpet - Flooring	OSFC (010)	199,600	0	199,600
Farnham Equipment Company - Furnishings	OSFC (010)	274,800	0	274,800
BrySCO Foodservice - Food Svc Equip.	OSFC (010)	194,746	0	194,746
S.A. Comunale Company, Inc. - Fire Protection	OSFC (010)	144,620	0	144,620
Peterman Plumbing & Heating, Inc. - Plumbing	OSFC (010)	548,095	0	548,095
Davidson Electric Co, Inc. - Electrical	OSFC (010)	882,000	0	882,000
Microman, Inc. - Telephone System	OSFC (010)	51,124	0	51,124
Stanley Security Solutions - Security	OSFC (010)	1,171,500	0	1,171,500
<b><u>Combined:</u></b>				
MKC Associates - Architect	OFSC (010)	1,928,182	1,471,829	456,353
PCS - Construction Manager	OFSC (010)	1,942,996	638,685	1,304,311
Miscellaneous - Permitting/Legal, Etc.	OFSC (010)	324,431	324,431	0
Columbia Gas - Utilities	LFI (004)	120,764	120,317	447
<b><u>Non-Capitalized Contracts:</u></b>				
James White Construction - Utilities	LFI (004)	555,425	409,310	146,115
Miscellaneous - Permitting/Legal, Etc.	LFI (004)	4,471	4,471	0
Total		<u>\$34,976,315</u>	<u>\$4,618,899</u>	<u>\$30,357,416</u>

**Martins Ferry City School District**  
*Notes to the Basic Financial Statements*  
For the Fiscal Year Ended June 30, 2006

**NOTE 17 - LONG - TERM OBLIGATIONS**

The changes in the School District's long-term obligations during fiscal year 2006 were as follows:

	Principal Outstanding 6/30/05	Additions	Deductions	Principal Outstanding 6/30/06	Amounts Due In One Year
<b><i>2005 School Construction and Improvement General Obligation Bonds</i></b>					
Serial Bonds, \$4,940,000 @ 3.0%-5.00%	\$4,940,000	\$0	\$140,000	\$4,800,000	\$135,000
Term Bonds, \$5,580,000 @ 5.0%	5,580,000	0	0	5,580,000	0
Premium, \$355,273	352,101	0	12,688	339,413	0
Total Bonds and Loans	<u>10,872,101</u>	<u>0</u>	<u>152,688</u>	<u>10,719,413</u>	<u>135,000</u>
Capital Leases	307,000	800,000	51,000	1,056,000	57,000
Compensated Absences	<u>1,049,179</u>	<u>102,303</u>	<u>391,487</u>	<u>759,995</u>	<u>22,798</u>
Total General Long-Term Obligations	<u>\$12,228,280</u>	<u>\$902,303</u>	<u>\$595,175</u>	<u>\$12,535,408</u>	<u>\$214,798</u>

The capital lease will be paid from the Permanent Improvement Levy. Compensated absences will be paid from the General and Food Service Funds.

*2005 School Construction and Improvement General Obligation Bonds* - On March 31, 2005, the School District issued \$10,520,000 in voted general obligation bonds which included serial and term bonds to pay the local share of the school construction under the State of Ohio Classroom Facilities Assistance Program (approximately 86% of the total of the bonds), as well as a portion of the project that will not be covered under the Classroom Facilities Assistance Program that is the Local Fund Initiative (approximately 14% of the total of the bonds). The issuance of the bonds included a \$355,273 premium and \$175,452 in bond issuance costs that will be amortized over the life of the issue. The bonds were issued for a twenty-eight year period with a final maturity at December 1, 2032.

In connection with the passage of the bond issue, the School District earmarked a half-mill of the existing permanent improvement levy for the maintenance of the new building.

The 2005 bond issue consists of serial and term bonds. The term bonds that mature December 1, 2017 are subject to mandatory sinking fund redemption at a price of 100% of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1 in the years and in the respective principal amounts as follows:

<u>Date</u>	<u>Principal Amount to be Redeemed</u>
2016	<u>\$265,000</u>

The remaining principal amount of such bonds \$280,000 will be paid at stated maturity on December 1, 2017.

The term bonds that mature December 1, 2019 are subject to mandatory sinking fund redemption at a price of 100% of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1 in the years and in the respective principal amounts as follows:

**Martins Ferry City School District**  
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<u>Date</u>	<u>Principal Amount to be Redeemed</u>
2018	<u><u>\$295,000</u></u>

The remaining principal amount of such bonds \$340,000 will be paid at stated maturity on December 1, 2019.

The term bonds that mature December 1, 2021 are subject to mandatory sinking fund redemption at a price of 100% of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1 in the years and in the respective principal amounts as follows:

<u>Date</u>	<u>Principal Amount to be Redeemed</u>
2020	<u><u>\$355,000</u></u>

The remaining principal amount of such bonds \$375,000 will be paid at stated maturity on December 1, 2021.

The term bonds that mature December 1, 2032 are subject to mandatory sinking fund redemption at a price of 100% of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1 in the years and in the respective principal amounts as follows:

<u>Date</u>	<u>Principal Amount to be Redeemed</u>
2028	\$650,000
2029	680,000
2030	720,000
2031	790,000

The remaining principal amount of such bonds \$830,000 will be paid at stated maturity on December 1, 2032.

**Optional Redemption**

Bonds maturing on or after December 1, 2015 are subject to redemption at the option of the School District, either in whole or in part, in such order as the School District shall determine, on any date on or after June 1, 2015, at 100% of the principal amount redeemed plus, in each case, accrued interest to the date fixed for redemption.

When partial redemption is authorized, the Bonds or portions thereof will be selected by lot within a maturity in such manner as the Bond Registrar may determine, provided, however, that the portion of any such Bond so selected will be in the amount of \$5,000 or any integral multiple thereof.

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

**Martins Ferry City School District**  
*Notes to the Basic Financial Statements*  
For the Fiscal Year Ended June 30, 2006

Fiscal Year Ending June 30	Principal	Interest	Total
2007	\$135,000	\$490,590	\$625,590
2008	155,000	486,240	641,240
2009	155,000	481,590	636,590
2010	155,000	476,824	631,824
2011	180,000	471,368	651,368
2012-2016	1,010,000	2,251,478	3,261,478
2017-2021	1,535,000	1,967,625	3,502,625
2022-2026	2,245,000	1,500,375	3,745,375
2027-2031	3,190,000	825,000	4,015,000
2032-2033	1,620,000	82,000	1,702,000
Total	<u>\$10,380,000</u>	<u>\$9,033,090</u>	<u>\$19,413,090</u>

The School District's overall legal debt margin was (\$1,181,636), with an unvoted debt margin of \$97,547, at June 30, 2006. The School District's overall legal debt margin was negative at June 30, 2006 due to the revision of the calculation per House Bill 530, which became effective March 30, 2006. The legislation provided for the exclusion of valuations of tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, or personal property owned or leased by a railroad company and used in railroad operations in the legal debt margin calculation. At the time the School District issued the general obligation bonds, prior to the revised legislation, the legal debt margin was not negative.

**NOTE 18 - JOINTLY GOVERNED ORGANIZATIONS**

*The Belmont-Harrison Vocational School District* 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 participating school district's elected boards, which possesses its own budgetary and taxing authority. To obtain financial information write to the Belmont-Harrison Vocational School, Alexis Petrilla, Treasurer, at Fox Shannon Road, St. Clairsville, Ohio 43950.

*Ohio Mid-Eastern Regional Educational Service Agency (OME-RESA)* - The Ohio Mid-Eastern Regional Educational Service Agency (OME-RESA) was created as a regional council of governments pursuant to State statutes. OME-RESA has twelve participating counties consisting of Belmont, Carroll, Columbiana, Coshocton, Guernsey, Harrison, Holmes, Jefferson, Muskingum, Monroe, Noble, and Tuscarawas Counties. OME-RESA operates under the direction of a Board consisting of one representative from each of the participating school district's elected boards, which possesses its own budgeting and taxing authority. OME-RESA provides financial accounting services, educational management information, and cooperative purchasing services to member districts. During fiscal year 2006, the total amount paid to OME-RESA from the School District was \$26,948. The Jefferson County Educational Service Center serves as the fiscal agent and receives funding from the State Department of Education. To obtain financial information write to Ohio Mid-Eastern Regional Educational Service Agency, Treasurer, at 2023 Sunset Blvd., Steubenville, Ohio 43952.

*East Central Ohio Special Education Regional Resource Center (ECO-SERRC)* - The East Central Ohio Special Education Regional Resource Center is a not-for-profit Council of Governments of various school districts and other organizations in east central Ohio. The ECO-SERRC participates in services that assist the participants in complying with mandates of Public Law 101-476 and Public Law 99-457 for educating

**Martins Ferry City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2006*

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children with disabilities. There is no financial commitment made by the School District and the ECO-SERRC is not financially dependent upon the continued participation of the School District. The School District does not maintain an equity interest in or financial responsibility for the ECO-SERRC. Financial information can be obtained by contacting Julie A. Lynch, Treasurer at the Tuscarawas-Carroll-Harrison Educational Service Center, 834 E. High Avenue, New Philadelphia, Ohio 44663-3052.

*Coalition of Rural and Appalachian Schools (CORAS)* - The Coalition of Rural and Appalachian Schools is a jointly governed organization including over 100 school districts in southeastern Ohio. The Coalition is operated by a Board which is comprised of fourteen members. The board members are comprised 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 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.

**NOTE 19 – RELATED ORGANIZATIONS**

*The Martins Ferry Public Library* is a distinct political subdivision of the State of Ohio created under Chapter 3375 of the Ohio Revised Code. The Library is governed by a Board of Trustees appointed by the Martins Ferry City School District Board of Education. The Board of Trustees possesses its own contracting and budgeting authority, hires and fires personnel and does not depend on the School District for operating subsidies. Although the School District does serve as the taxing authority and may issue tax related debt on behalf of the Library, its role is limited to a ministerial function. The determination to request approval of a tax, the rate and the purpose are discretionary decisions made solely by the Board of Trustees. Financial information can be obtained from the Martins Ferry Public Library, Mary Ella Potter, Clerk/Treasurer, at 20 James Wright Place, Martins Ferry, Ohio 43935.

**NOTE 20 – INSURANCE PURCHASING POOL**

*Ohio Association of School Business Officials Workers' Compensation Group Rating Program (GRP)* – The School District participates in the Ohio Association of School Business Officials Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. Participants in the GRP are placed on tiers according to their loss history. Participants with low loss histories are rewarded with greater savings than participants with higher loss histories. Each participant pays its workers' compensation premium to the state based on the rate for its GRP tier rather than its individual rate. Participation in the GRP is limited to School Districts that can meet the GRP's selection criteria. The firm of Sheakley UniService, Inc. provides administration, cost control, and actuarial services to the GRP.

*Ohio School Plan* – The School District participates in the Ohio School Plan (OSP), an insurance purchasing pool. The Ohio School Plan (OSP) is created and organized pursuant to and as authorized by Section 2744.081 of the Ohio Revised Code. The OSP is an unincorporated, non-profit association of its members and an instrumentality for each member for the purpose of enabling members of the Plan to provide for a formalized, joint insurance purchasing program to maintain adequate insurance protection, risk management programs and other administrative services. The OSP's business and affairs are conducted by a fifteen member Board of Directors consisting of school district superintendents and treasurers, as well as the president of Harcum-Hyre Insurance Agency, Inc. and a partner of the Hylant Group, Inc. Hylant Group Inc. is the Administrator of the OSP and is responsible for processing claims.

**Martins Ferry City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2006*

Harcum-Hyre Insurance Agency, Inc. is the sales and marketing representative, which establishes agreements between OSP and member schools.

**NOTE 21 - SET-ASIDE CALCULATIONS AND FUND RESERVES**

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

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

	Textbooks	Capital Improvements
Set-aside Reserve Balance as of June 30, 2005	\$0	\$0
Current Year Set-aside Requirement	229,066	229,066
Current Year Offsets	0	(169,427)
Qualifying Disbursements	(296,942)	(146,386)
Totals	(\$67,876)	(\$86,747)
Allowable Carry Forward for Fiscal Year 2005	(195,473)	(242,535)
Current Year Carry Forward Eligible Capital Expenditures	0	(1,076,337)
Set-aside Balance Carried Forward to Future Fiscal Years	(\$263,349)	(\$1,318,872)
Set-aside Reserve Balance as of June 30, 2006	\$0	\$0

The School District has qualifying disbursements during the fiscal year that reduced the textbook set-aside amount below zero. This extra amount may be used to reduce the set-aside requirement of future years. The School District had offsets and qualifying disbursements during the fiscal year that reduced the set-aside amount to below zero for the capital acquisition set-aside, and this amount may not be carried forward to future years. The School District also had current year and prior year capital expenditures from debt proceeds in connection with a school facilities project that may be carried forward to offset future set-aside requirements.



**Martins Ferry City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2006*

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**NOTE 22 - CONTINGENCIES**

**A. Grants**

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2006.

**B. Litigation**

The School District is currently party to legal proceedings. The School District management is of the opinion that the ultimate disposition of claims will not have a material effect, if any, on the financial condition of the School District.

**NOTE 23 - SUBSEQUENT EVENTS**

At the November 14, 2006 regular Board Meeting, the School District Board of Education approved a lease-purchase agreement between the School District and Ayers Limestone Quarry, Inc. for the lease-purchase of property adjacent to the current building site of the new Ohio School Facilities Commission building project. The lease agreement is for an initial one year term, renewable twenty-nine times, and calls for a total principal repayment of \$950,000 at a 4 percent interest rate. The lease agreement calls for a monthly payment of \$4,535. The School District began making the monthly payments in September, 2006, and the amount of the payments prior to the approval of the lease will be credited toward the total required lease payments.

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**MARTINS FERRY CITY SCHOOL DISTRICT  
BELMONT COUNTY**

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

FEDERAL GRANTOR <i>Pass-Through Grantor</i> Program Title	Pass-through Entity Number	Federal CFDA Number	Receipts	Noncash Receipts	Expenditures	Noncash Expenditures
<b>U.S. DEPARTMENT OF AGRICULTURE</b>						
<i>Passed-Through Ohio Department of Education:</i>						
Food Donation	NA	10.550	\$0	\$23,795	\$0	\$23,795
Nutrition Cluster:						
School Breakfast Program	044347-05-PU-05	10.553	11,465	0	11,465	0
	044347-05-PU-06	10.553	<u>66,277</u>	<u>0</u>	<u>66,277</u>	<u>0</u>
Total School Breakfast Program			77,742	0	77,742	0
National School Lunch Program	044347-LL-P4-05	10.555	33,614	0	33,614	0
	044347-LL-P4-06	10.555	<u>194,563</u>	<u>0</u>	<u>194,563</u>	<u>0</u>
Total National School Lunch Program			<u>228,177</u>	<u>0</u>	<u>228,177</u>	<u>0</u>
Total Nutrition Cluster			305,919	0	305,919	0
<i>Direct Program</i>						
Distance Learning and Telemedicine Loans and Grants	OH-706-A16	10.855	<u>59,672</u>	<u>0</u>	<u>57,052</u>	<u>0</u>
Total U.S. Department of Agriculture			<u>365,591</u>	<u>23,795</u>	<u>362,971</u>	<u>23,795</u>
<b>U.S. DEPARTMENT OF EDUCATION</b>						
<i>Passed-Through Ohio Department of Education:</i>						
Title I Grants to Local Educational Agencies	044347-C1-S1-05	84.010	17,638	0	72,014	0
	044347-C1-S1-06	84.010	<u>624,950</u>	<u>0</u>	<u>575,659</u>	<u>0</u>
Total Title I Grants to Local Educational Agencies			642,588	0	647,673	0
Special Education, Grants to States	044347-6B-SF-05	84.027	23,806	0	39,718	0
	044347-6B-SF-06	84.027	<u>372,673</u>	<u>0</u>	<u>367,672</u>	<u>0</u>
Total Special Education, Grants to States			396,479	0	407,390	0
Safe and Drug-Free Schools and Communities, State Grants	044347-DR-S1-05	84.186	975	0	2,985	0
	044347-DR-S1-06	84.186	<u>14,916</u>	<u>0</u>	<u>14,466</u>	<u>0</u>
Total Safe and Drug-Free Schools and Communities, State Grants			15,891	0	17,451	0
Innovative Education Program Strategies	044347-C2-S1-05	84.298	179	0	821	0
	044347-C2-S1-06	84.298	<u>5,331</u>	<u>0</u>	<u>4,828</u>	<u>0</u>
Total Innovative Programs, Title V			5,510	0	5,649	0
Education Technology State Grants	044347-TJ-S1-05	84.318	(938)	0	0	0
	044347-TJ-S1-06	84.318	<u>10,877</u>	<u>0</u>	<u>8,663</u>	<u>0</u>
Total Education Technology State Grants			9,939	0	8,663	0
Improving Teacher Quality State Grants	044347-TR-S1-05	84.367	24,106	0	30,073	0
	044347-TR-S1-06	84.367	<u>86,328</u>	<u>0</u>	<u>79,065</u>	<u>0</u>
			110,434	0	109,138	0
Hurricane Education Recovery Act (HERA)	044347-HR-01-06	84.938	<u>2,000</u>	<u>0</u>	<u>2,000</u>	<u>0</u>
Total U.S. Department of Education			<u>1,182,841</u>	<u>0</u>	<u>1,197,964</u>	<u>0</u>
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>						
<i>Passed-Through Ohio Department of Mental Retardation and Developmental Disabilities:</i>						
State Children's Insurance Program	N/A	93.767	2,486	0	2,486	0
Medical Assistance Program	N/A	93.778	<u>52,006</u>	<u>0</u>	<u>52,006</u>	<u>0</u>
Total U.S. Department of Health and Human Services			<u>54,492</u>	<u>0</u>	<u>54,492</u>	<u>0</u>
<b>Total Federal Awards Receipts and Expenditures</b>			<u><u>\$1,602,924</u></u>	<u><u>\$23,795</u></u>	<u><u>\$1,615,427</u></u>	<u><u>\$23,795</u></u>

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

**MARTINS FERRY CITY SCHOOL DISTRICT  
BELMONT COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Federal Awards Receipts and Expenditures Schedule (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 - CHILD NUTRITION CLUSTER**

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**

The Ohio Department of Education (ODE) requires School Districts to record grant funds carried over from one grant period to another grant period as a negative receipt in the original grant fund project-by-year line and as a positive receipt in the subsequent year project line. The Schedule reflects the following transfer due to ODE administrative action:

<u>CFDA Number</u>	<u>Pass-through Entity Number</u>	<u>Transfers- In</u>	<u>Transfers-Out</u>
84.010	044347-C1S1-05		\$20,163
84.010	044347-C1S1-06	\$20,163	
84.186	044347-DRS1-05		\$450
84.186	044347-DRS1-06	\$450	
84.298	044347-C2S1-05		\$41
84.298	044347-C2S1-06	\$41	
84.318	044347-TJS1-05		\$938
84.318	044347-TJS1-06	\$938	



# Mary Taylor, CPA

## Auditor of State

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

Martins Ferry City School District  
Belmont County  
633 Hanover Street  
Martins Ferry, Ohio 43935

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 Martins Ferry City School District, Belmont 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 January 31, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in 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 opinion 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.

#### **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 no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the School District's management dated January 31, 2007, we reported other matters related to noncompliance we deemed immaterial.

Martins Ferry City School District  
Belmont 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 "Mary Taylor". The signature is written in a cursive, flowing style.

**Mary Taylor, CPA**  
Auditor of State

January 31, 2007



# Mary Taylor, CPA

## Auditor of State

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

Martins Ferry City School District  
Belmont County  
633 Hanover Street  
Martins Ferry, Ohio 43935

To the Board of Education:

#### Compliance

We have audited the compliance of the Martins Ferry City School District, Belmont 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 its major federal program 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 program. 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 Martins Ferry City School District complied, in all material respects, with the requirements referred to above that apply to its major federal program 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.

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 cursive script that reads "Mary Taylor".

**Mary Taylor, CPA**  
Auditor of State

January 31, 2007



**MARTINS FERRY CITY SCHOOL DISTRICT  
BELMONT COUNTY**

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

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

**MARTINS FERRY CITY SCHOOL DISTRICT  
BELMONT COUNTY**

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

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

None.

**3. FINDINGS FOR FEDERAL AWARDS**

None.



**Mary Taylor, CPA**  
Auditor of State

**MARTINS FERRY CITY SCHOOL DISTRICT**

**BELMONT 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  
MARCH 8, 2007**