



Dave Yost • Auditor of State

**MARTINS FERRY CITY SCHOOL DISTRICT
BELMONT COUNTY**

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INDEPENDENT ACCOUNTANTS' REPORT

Martins Ferry City School District
Belmont County
5001 Ayers Limestone Road
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, 2011, 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, 2011, 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.

As discussed in Note 23 to the financial statements, the School District has suffered recurring losses from operations and has a net asset deficiency. Note 23 describes Management's plans regarding these matters. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As described in Note 3, the School District adopted the provisions of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 16, 2012, 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.

Accounting principles generally accepted in the United States of America require this presentation to include Management's Discussion and Analysis, as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

We conducted our audit to opine on the financial statements that collectively comprise the School District's basic financial statements taken as a whole. The Federal Awards Receipts and Expenditures Schedule (the Schedule) provides additional information required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The Schedule is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This Schedule was subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



Dave Yost
Auditor of State

February 16, 2012

Martins Ferry City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
Unaudited

The discussion and analysis of the Martins Ferry City School District's (the School District) financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2011. 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 2011 are as follows:

- In total, net assets decreased \$499,368.
- General revenues accounted for \$11,401,388 in revenue or approximately 74 percent of all revenues. Program specific revenues in the form of charges for services and operating grants and contributions, accounted for \$4,100,081 or approximately 26 percent of total revenues of \$15,501,469.
- Total assets decreased \$1,267,798, due primarily to depreciation expense on capital assets which was offset slightly by an increase in cash and cash equivalents.
- The School District had \$16,000,837 in expenses related to governmental activities; only \$4,100,081 of these expenses were offset by program specific charges for services, and operating grants and contributions. General revenues of \$11,401,388 were not adequate to provide for these programs.
- Total governmental funds had \$15,545,629 in revenues and \$14,985,800 in expenditures. Overall, including other financing sources and uses, Total Governmental Funds' balance increased \$559,829.

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 as the School District's most significant funds with all other non-major funds presented in total in one column.

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

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Management's Discussion and Analysis
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financial transactions and asks the question, "How did we do financially during fiscal year 2011" 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, food service operations, operation of non-instructional services, and extracurricular activities.

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's funds begins on page 7. 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 Debt Service 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.

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 2011 compared to 2010.

Martins Ferry City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
Unaudited

Table 1
Net Assets

	Governmental Activities		
	2011	2010	Net Change
Assets			
Current and Other Assets	\$4,101,675	\$3,991,270	\$110,405
Capital Assets	41,757,545	43,135,748	(1,378,203)
Total Assets	<u>45,859,220</u>	<u>47,127,018</u>	<u>(1,267,798)</u>
Liabilities			
Long-Term Liabilities	14,499,333	14,873,125	(373,792)
Other Liabilities	4,162,203	4,556,841	(394,638)
Total Liabilities	<u>18,661,536</u>	<u>19,429,966</u>	<u>(768,430)</u>
Net Assets			
Invested in Capital Assets, Net of Debt	28,482,616	29,571,204	(1,088,588)
Restricted	1,177,487	1,126,371	51,116
Unrestricted (Deficit)	(2,462,419)	(3,000,523)	538,104
Total Net Assets	<u>\$27,197,684</u>	<u>\$27,697,052</u>	<u>(\$499,368)</u>

Total assets decreased \$1,267,798, due primarily to depreciation expense on capital assets which was offset slightly by an increase in cash and cash equivalents.

Total liabilities decreased \$768,430. Long-term liabilities decreased \$373,792, due primarily to the repayments made on the capital leases and the general obligation bonds that were issued for the local share of the classroom facilities project. Other liabilities decreased \$394,638, due primarily to decreases in accrued wages and benefits as a result of the School District implementing a five percent wage reduction for all employees during fiscal year 2011.

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Table 2 shows the changes in net assets for fiscal year 2011 compared to fiscal year 2010.

Table 2
Changes in Net Assets

	Governmental Activities		Net Change
	2011	2010	
Revenues			
<i>Program Revenue</i>			
Charges for Services	\$1,348,238	\$1,330,514	\$17,724
Operating Grants and Contributions	2,751,843	3,103,017	(351,174)
Total Program Revenue	4,100,081	4,433,531	(333,450)
<i>General Revenue</i>			
Property Taxes	2,825,509	2,843,014	(17,505)
Grants and Entitlements	8,556,547	8,602,367	(45,820)
Gifts and Donations	5,729	10,300	(4,571)
Investment Earnings	756	1,124	(368)
Miscellaneous	12,847	6,204	6,643
Total General Revenue	11,401,388	11,463,009	(61,621)
Total Revenues	15,501,469	15,896,540	(395,071)
Program Expenses			
<i>Instruction:</i>			
Regular	6,627,556	6,905,780	(278,224)
Special	1,839,243	2,183,780	(344,537)
Vocational	326,846	405,469	(78,623)
Student Intervention Services	71,405	70,664	741
<i>Support Services:</i>			
Pupil	741,708	623,561	118,147
Instructional Staff	692,133	768,114	(75,981)
Board of Education	80,720	38,219	42,501
Administration	1,195,458	1,324,198	(128,740)
Fiscal	363,411	324,998	38,413
Operation and Maintenance of Plant	1,434,158	1,668,634	(234,476)
Pupil Transportation	654,154	660,201	(6,047)
Central	58,844	75,689	(16,845)
Operation of Non-Instructional Services	144,914	171,707	(26,793)
Food Service Operations	796,674	792,480	4,194
Extracurricular Activities	390,777	395,017	(4,240)
Interest and Fiscal Charges	582,836	660,890	(78,054)
Total Expenses	16,000,837	17,069,401	(1,068,564)
<i>Change in Net Assets</i>	<i>(499,368)</i>	<i>(1,172,861)</i>	<i>673,493</i>
Net Assets Beginning of Year	27,697,052	28,869,913	(1,172,861)
Net Assets End of Year	\$27,197,684	\$27,697,052	(\$499,368)

Governmental Activities

Property taxes comprise only 18 percent of revenues for the School District in fiscal year 2011. This revenue source decreased slightly from fiscal year 2010 primarily due to very little growth in assessed tax valuation and the loss of personal property tax revenue. Operating grants and contributions decreased from the prior fiscal year in the amount of \$351,174. The decrease is primarily due to the School District

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Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
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receiving less federal funding related to the American Recovery and Reinvestment Act, which was offset slightly by the School District receiving Education Jobs federal monies.

Instruction comprises approximately 55 percent of governmental program expenses, and reflected a \$700,643 decrease from fiscal year 2010. Overall, program expenses of the School District decreased by \$1,068,564. The decrease was due primarily to the School District implementing a five percent wage reduction for all employees during fiscal year 2011.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for government activities, the total cost of services and the net cost of services for fiscal year 2011 compared to fiscal year 2010. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

Table 3
Governmental Activities

	<u>Total Cost of Services</u>		<u>Net Cost of Services</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Instruction:				
Regular	\$6,627,556	\$6,905,780	\$5,369,997	\$5,670,497
Special	1,839,243	2,183,780	971,542	1,201,465
Vocational	326,846	405,469	208,992	287,514
Student Intervention Services	71,405	70,664	71,405	70,664
Support Services:				
Pupil	741,708	623,561	512,450	565,902
Instructional Staff	692,133	768,114	494,070	308,358
Board of Education	80,720	38,219	80,720	38,219
Administration	1,195,458	1,324,198	1,139,906	1,228,036
Fiscal	363,411	324,998	163,055	120,827
Operation and Maintenance of Plant	1,434,158	1,668,634	1,177,794	1,312,460
Pupil Transportation	654,154	660,201	654,154	660,201
Central	58,844	75,689	49,989	64,262
Operation of Non-Instructional Services	144,914	171,707	44,024	(4,401)
Food Service Operations	796,674	792,480	87,784	146,652
Extracurricular Activities	390,777	395,017	292,038	304,324
Interest and Fiscal Charges	582,836	660,890	582,836	660,890
Total Expenses	<u>\$16,000,837</u>	<u>\$17,069,401</u>	<u>\$11,900,756</u>	<u>\$12,635,870</u>

The dependence upon tax revenues and state subsidies for governmental activities is apparent, as 74 percent of total expenses are supported through taxes and other general revenues.

The School District Funds

Information about the School District's major funds starts on page 13. These funds are accounted for using the modified accrual basis of accounting. The School District's major funds are the General Fund and the Debt Service Fund. The General Fund had \$11,844,552 in revenues and \$11,389,621 in expenditures, and the fund balance, including other financing sources increased \$456,789. The Debt

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Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
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Service Fund had \$691,470 in revenues and \$667,662 in expenditures, and the fund balance increased \$23,808.

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 2011 the School District amended its General Fund estimated revenues, and the budgetary statement reflects both the original and final revenue amounts. There were no significant variances between original and final budgeted amounts. The actual amounts represent a variance from final budget amounts as intergovernmental revenues were higher than estimated and expenditures in almost all categories were greater than budgeted.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2011 the School District had \$41,757,545 invested in land, land improvements, buildings and improvements, furniture and equipment, and vehicles. See Note 10 for more detailed information of the School District's capital assets.

Debt

At June 30, 2011, the School District has \$9,875,973 in outstanding general obligation bonds that were issued for the local share of the classroom facilities project, as well as \$3,811,218 in outstanding capital leases related to the stadium construction project, school facilities construction project locally funded initiatives, copier lease, purchase of the bus garage, and land associated with the building project. See Note 17 for more detailed information related to the School District's debt.

Economic Factors

The School District began fiscal year 2011 with a General Fund deficit cash balance. In December 2010 the School District issued a Tax Anticipation Note in the amount of \$500,000 for cash flow purposes to meet payroll expense obligations. This was repaid in March 2011. Due to the School District receiving American Recovery and Reinvestment Act (ARRA) funding, jobs were saved as without this funding layoffs would have occurred. Also, EDJOBS grant funding was allocated for fiscal years 2011 and 2012 to help save the jobs of newer teaching staff. This funding, however, was not enough to alleviate the School District from ending fiscal year 2011 with a General Fund deficit cash balance.

The School District Board of Education approved a forecast reflecting decreases in revenues for fiscal year 2012. The School District expects slight decreases in local real estate taxes as well as homestead and rollback taxes. Also, fiscal years 2011 and 2012 reflect the elimination of the Tangible Personal Property Tax. The School District expects increases in revenue from the state primarily due to increased State Foundation payments to help offset the elimination of the tangible personal property tax.

The School District's approved forecast reflects decreases in expenditures for fiscal year 2012. Salary and wage expense is expected to decrease as a result of non-replacement of employees through attrition and

Martins Ferry City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
Unaudited

also in the second year of the forecast it reflects a five percent wage reduction applicable to all employees of the School District. The wage reduction was effective July 5, 2010. Retirement and benefit expenses are expected to decrease as well in direct correlation to the non-replacement of employees and the wage reduction. In an effort to further reduce costs, effective January 1, 2012 the School District reduced two secretarial positions from twelve months to eleven months and also ten twelve month custodial positions to ten months. Also, there was no replacement of one retiring administrative position.

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 Karen Blake, Treasurer/CFO at Martins Ferry City School District, 5001 Ayers Limestone Rd, Martins Ferry, Ohio 43935.

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Martins Ferry City School District
Statement of Net Assets
June 30, 2011

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	\$776,413
Materials and Supplies Inventory	18,240
Prepaid Items	6,857
Property Taxes Receivable	3,135,639
Cash and Cash Equivalents with Escrow Agents	28,237
Deferred Charges	136,289
Non-Depreciable Capital Assets	2,436,556
Depreciable Capital Assets, Net	39,320,989
Total Assets	45,859,220
Liabilities	
Accounts Payable	73,166
Accrued Wages and Benefits Payable	1,073,350
Intergovernmental Payable	465,121
Accrued Interest Payable	38,472
Vacation Benefits Payable	72,803
Matured Severance Payable	29,594
Deferred Revenue	2,351,070
Retainage Payable	28,237
Retirement Incentive Payable	30,390
Long-Term Liabilities:	
Due Within One Year	556,334
Due In More Than One Year	13,942,999
Total Liabilities	18,661,536
Net Assets	
Invested in Capital Assets, Net of Related Debt	28,482,616
Restricted for:	
Debt Service	552,720
Capital Projects	295,300
Classroom Facilities Maintenance	118,084
State Programs	13,776
Federal Programs	171,743
Other Purposes	25,864
Unrestricted (Deficit)	(2,462,419)
Total Net Assets	\$27,197,684

See accompanying notes to the basic financial statements

Martins Ferry City School District
Statement of Activities
For the Fiscal Year Ended June 30, 2011

	Program Revenues		Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental Activities				
Instruction:				
Regular	\$6,627,556	\$991,258	\$266,301	(\$5,369,997)
Special	1,839,243	0	867,701	(971,542)
Vocational	326,846	0	117,854	(208,992)
Student Intervention Services	71,405	0	0	(71,405)
Support Services:				
Pupil	741,708	0	229,258	(512,450)
Instructional Staff	692,133	0	198,063	(494,070)
Board of Education	80,720	0	0	(80,720)
Administration	1,195,458	0	55,552	(1,139,906)
Fiscal	363,411	0	200,356	(163,055)
Operation and Maintenance of Plant	1,434,158	0	256,364	(1,177,794)
Pupil Transportation	654,154	0	0	(654,154)
Central	58,844	0	8,855	(49,989)
Operation of Non-Instructional Service	144,914	0	100,890	(44,024)
Food Service Operations	796,674	258,241	450,649	(87,784)
Extracurricular Activities	390,777	98,739	0	(292,038)
Interest and Fiscal Charges	582,836	0	0	(582,836)
<i>Total Governmental Activities</i>	<u>\$16,000,837</u>	<u>\$1,348,238</u>	<u>\$2,751,843</u>	<u>(11,900,756)</u>

General Revenues

Property Taxes Levied for General Purposes	2,151,989
Property Taxes Levied for Capital Outlay	79,754
Property Taxes Levied for Debt Service	541,156
Property Taxes Levied for Building Maintenance	52,610
Grants and Entitlements not Restricted to Specific Programs	8,556,547
Gifts and Donations	5,729
Investment Earnings	756
Miscellaneous	12,847
<i>Total General Revenues</i>	<u>11,401,388</u>
Change in Net Assets	(499,368)
<i>Net Assets Beginning of Year</i>	<u>27,697,052</u>
<i>Net Assets End of Year</i>	<u>\$27,197,684</u>

See accompanying notes to the basic financial statements

Martins Ferry City School District
Balance Sheet
Governmental Funds
June 30, 2011

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$0	\$4,692	\$760,721	\$765,413
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	11,000	0	0	11,000
Cash and Cash Equivalents with Escrow Agents	0	0	28,237	28,237
Receivables:				
Property Taxes	2,369,003	617,869	148,767	3,135,639
Interfund	2,788	706,034	0	708,822
Prepaid Items	6,354	0	503	6,857
Materials and Supplies Inventory	800	0	17,440	18,240
<i>Total Assets</i>	<u>\$2,389,945</u>	<u>\$1,328,595</u>	<u>\$955,668</u>	<u>\$4,674,208</u>
Liabilities and Fund Balances				
Liabilities				
Accounts Payable	\$71,992	\$0	\$1,174	\$73,166
Accrued Wages and Benefits	1,029,159	0	44,191	1,073,350
Interfund Payable	706,034	0	2,788	708,822
Intergovernmental Payable	341,404	0	123,717	465,121
Matured Severance Payable	29,594	0	0	29,594
Retirement Incentive Payable	30,390	0	0	30,390
Retainage Payable	0	0	28,237	28,237
Deferred Revenue	2,198,886	572,607	138,173	2,909,666
<i>Total Liabilities</i>	<u>4,407,459</u>	<u>572,607</u>	<u>338,280</u>	<u>5,318,346</u>
Fund Balances (Deficit)				
Nonspendable:				
Inventories	800	0	17,440	18,240
Prepays	6,354	0	503	6,857
Restricted for:				
Debt Service	0	755,988	0	755,988
Capital Projects	0	0	275,656	275,656
Food Service Operations	0	0	2,048	2,048
Classroom Facilities Maintenance	0	0	111,535	111,535
Local Programs	0	0	25,864	25,864
State Programs	0	0	13,776	13,776
Federal Programs	0	0	171,743	171,743
Underground Storage Tank Premium	11,000	0	0	11,000
Unassigned	(2,035,668)	0	(1,177)	(2,036,845)
<i>Total Fund Balances (Deficit)</i>	<u>(2,017,514)</u>	<u>755,988</u>	<u>617,388</u>	<u>(644,138)</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$2,389,945</u>	<u>\$1,328,595</u>	<u>\$955,668</u>	<u>\$4,674,208</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, 2011*

Total Governmental Fund Balances (\$644,138)

*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 not reported in the funds. 41,757,545

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

Property Taxes 558,596

Unamortized issuance costs represent deferred charges which
do not provide current financial resources and, therefore, are
not reported in the funds. 136,289

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

General Obligation Bonds	9,600,000
Bond Premium	275,973
Compensated Absences	812,142
Vacation Benefits Payable	72,803
Accrued Interest Payable	38,472
Capital Leases	<u>3,811,218</u>

Total (14,610,608)

Net Assets of Governmental Activities \$27,197,684

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, 2011

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
Revenues				
Property Taxes	\$2,166,319	\$543,027	\$133,159	\$2,842,505
Intergovernmental	8,673,707	148,206	2,513,641	11,335,554
Interest	421	237	98	756
Tuition and Fees	976,295	0	0	976,295
Extracurricular Activities	0	0	98,739	98,739
Contributions and Donations	0	0	5,729	5,729
Charges for Services	14,963	0	258,241	273,204
Miscellaneous	12,847	0	0	12,847
<i>Total Revenues</i>	<u>11,844,552</u>	<u>691,470</u>	<u>3,009,607</u>	<u>15,545,629</u>
Expenditures				
Current:				
Instruction:				
Regular	5,724,739	0	317,325	6,042,064
Special	923,598	0	802,878	1,726,476
Vocational	290,946	0	950	291,896
Student Intervention Services	70,116	0	0	70,116
Support Services:				
Pupil	555,607	0	159,609	715,216
Instructional Staff	414,694	0	198,334	613,028
Board of Education	80,720	0	0	80,720
Administration	997,893	0	84,752	1,082,645
Fiscal	333,772	16,294	5,078	355,144
Operation and Maintenance of Plant	1,047,184	0	193,795	1,240,979
Pupil Transportation	580,198	0	0	580,198
Central	45,194	0	12,127	57,321
Operation of Non-Instructional Services	0	0	133,433	133,433
Food Service Operations	0	0	673,576	673,576
Extracurricular Activities	205,103	0	99,267	304,370
Capital Outlay	0	0	132,961	132,961
Debt Service:				
Principal Retirement	25,072	180,000	90,809	295,881
Interest and Fiscal Charges	94,785	471,368	23,623	589,776
<i>Total Expenditures</i>	<u>11,389,621</u>	<u>667,662</u>	<u>2,928,517</u>	<u>14,985,800</u>
<i>Excess of Revenues Over Expenditures</i>	<u>454,931</u>	<u>23,808</u>	<u>81,090</u>	<u>559,829</u>
Other Financing Sources				
Transfers In	1,858	0	0	1,858
Transfers Out	0	0	(1,858)	(1,858)
Total Other Financing Sources	<u>1,858</u>	<u>0</u>	<u>(1,858)</u>	<u>0</u>
<i>Net Change in Fund Balances</i>	456,789	23,808	79,232	559,829
<i>Fund Balances (Deficit) Beginning of Year - Restated (Note 3)</i>	<u>(2,474,303)</u>	<u>732,180</u>	<u>538,156</u>	<u>(1,203,967)</u>
<i>Fund Balances (Deficit) End of Year</i>	<u><u>(\$2,017,514)</u></u>	<u><u>\$755,988</u></u>	<u><u>\$617,388</u></u>	<u><u>(\$644,138)</u></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, 2011*

Net Change in Fund Balances - Total Governmental Funds \$559,829

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

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

Capital Assets Additions	89,347	
Depreciation Expense	(1,445,849)	
Total	(1,356,502)	(1,356,502)

Capital Assets removed from the capital asset account on the statement of net assets results in a gain on disposal of capital assets on the statement of activities. (21,701)

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

Property Taxes	(16,996)	
Grants	(27,164)	
Total	(44,160)	(44,160)

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	180,000	
Capital Leases	115,881	
Total	295,881	295,881

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	518	
Premium	12,688	
Total	13,206	13,206

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, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Vacation Benefits Payable	(4,878)	
Compensated Absences	65,223	
Total	60,345	60,345

Change in Net Assets of Governmental Activities (\$499,368)

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, 2011

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Property Taxes	\$2,242,200	\$2,105,988	\$2,179,406	\$73,418
Intergovernmental	8,290,000	8,379,029	8,673,707	294,678
Interest	500	421	421	0
Tuition and Fees	907,500	942,100	976,295	34,195
Charges for Services	12,000	14,963	14,963	0
Miscellaneous	5,000	12,841	12,841	0
<i>Total Revenues</i>	<u>11,457,200</u>	<u>11,455,342</u>	<u>11,857,633</u>	<u>402,291</u>
Expenditures				
Current:				
Instruction:				
Regular	5,289,718	5,723,700	5,934,348	(210,648)
Special	1,126,856	1,016,400	963,889	52,511
Vocational	290,746	272,900	329,140	(56,240)
Student Intervention Services	80,941	77,300	72,082	5,218
Support Services:				
Pupil	630,510	554,200	558,600	(4,400)
Instructional Staff	357,646	331,600	329,187	2,413
Board of Education	41,441	36,800	42,199	(5,399)
Administration	1,126,138	1,129,700	1,083,896	45,804
Fiscal	305,646	292,800	336,878	(44,078)
Operation and Maintenance of Plant	1,277,338	1,089,700	1,108,446	(18,746)
Pupil Transportation	568,110	566,700	640,956	(74,256)
Central	71,046	45,400	49,907	(4,507)
Extracurricular Activities	211,664	224,400	210,610	13,790
Capital Outlay	0	16,200	0	16,200
Debt Service:				
Principal Retirement	98,409	98,409	525,072	(426,663)
Interest and Fiscal Charges	107,591	107,591	94,785	12,806
<i>Total Expenditures</i>	<u>11,583,800</u>	<u>11,583,800</u>	<u>12,279,995</u>	<u>(696,195)</u>
Excess of Revenues Under Expenditures	(126,600)	(128,458)	(422,362)	(293,904)
Other Financing Sources (Uses)				
Transfers In	0	1,858	1,858	0
Tax Anticipation Note Issued	0	0	500,000	500,000
Advances Out	0	0	(1,518)	(1,518)
Total Other Financing Sources (Uses)	<u>0</u>	<u>1,858</u>	<u>500,340</u>	<u>498,482</u>
<i>Net Change in Fund Balance</i>	(126,600)	(126,600)	77,978	204,578
<i>Fund Balance (Deficit) Beginning of Year</i>	(845,496)	(845,496)	(845,496)	0
Prior Year Encumbrances Appropriated	25,958	25,958	25,958	0
<i>Fund Balance (Deficit) End of Year</i>	<u>(\$946,138)</u>	<u>(\$946,138)</u>	<u>(\$741,560)</u>	<u>\$204,578</u>

See accompanying notes to the basic financial statements

Martins Ferry City School District
Statement of Fiduciary Net Assets
Fiduciary Fund
June 30, 2011

	<u>Agency</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$7,930</u>
<i>Total Assets</i>	<u><u>\$7,930</u></u>
Liabilities	
Due to Students	<u>\$7,930</u>
<i>Total Liabilities</i>	<u><u>\$7,930</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, 2011

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 the city of Martins Ferry and portions of Pease and Colerain Townships. It is staffed by 61 non-certified employees, 105 certified full-time teaching personnel and 8 administrative employees, who provide services to 1,540 students and other community members. The School District currently operates 2 instructional/support buildings, 1 administrative building, and 1 bus garage facility.

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 participates in the Belmont-Harrison Vocational School District, the Ohio Mid-Eastern Regional Educational Service Agency Information Technology Center Regional Council of Governments (Council), the Educational Regional Service System Region 12 (ERSS), the Coalition of Rural and Appalachian Schools (CORAS) which are jointly governed organizations, the Martins Ferry Public Library a related organization, the Ohio Association of School Business Officials Workers' Compensation Group Rating Program (GRP) and the Ohio School Plan (OSP), which are defined as an insurance purchasing pool. These organizations 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, 2011

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.

Martins Ferry City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

The difference between governmental fund assets and liabilities is reported as fund balance. The following are the School District's major governmental funds:

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.

Debt Service Fund The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term principal, interest, and related costs.

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

Martins Ferry City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

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.

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, 2011, but which were levied to finance fiscal year 2012 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".

Following Ohio statues, the Board of Education has, by resolution, specified the fund to receive an allocation of interest earnings. All interest revenue is credited to the General Fund during fiscal year 2011 and amounted to \$421, all of which is 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. During fiscal year 2011, the School District had no investments.

Martins Ferry City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

The General Fund made disbursements in excess of its equity interest in the cash management pool. The amount of this excess is reported as an interfund payable to the Debt Service Fund, which is reported as a major governmental fund.

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 law through constitutional provisions or enabling legislation. Restricted assets in the General Fund are for amounts related to the underground storage tank and restricted assets in the Other Governmental Funds are for amounts withheld on construction contracts.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2011, 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 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, 2011

<u>Description</u>	<u>Estimated Lives</u>
Land	N/A
Construction in Progress	N/A
Land Improvements	5 - 50 Years
Buildings and Improvements	20 - 50 Years
Furniture and Equipment	5-20 Years
Vehicles	5 - 8 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.

The entire sick leave benefit liability is reported on the government-wide financial statements.

On the government 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

Martins Ferry City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

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.

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. Internal Activity

Transfers within governmental activities on the government-wide statements are reported in the same manner as general revenues.

Internal allocations of overhead expenses from one function to another or within the same function are eliminated on the Statement of Activities. Payments for interfund services provided and used are not eliminated.

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

Fund balance is divided into five classifications based primarily on the extent to which the School District is bound to observe constraints imposed upon the use of the resources in governmental funds. The classifications are as follows:

Nonspendable: The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” includes items that are not expected to be converted to cash.

Restricted: Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions or enabling legislation (School District resolutions).

Enabling legislation authorizes the School District to assess, levy, charge, or otherwise mandates payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Legal enforceability means that the School District can be compelled by an external party, such as citizens, public interest groups, or the judiciary to use resources created by enabling legislation only for the purposes specific by the legislation.

Committed: The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the School District Board of Education. Those committed amounts cannot be used for any other purpose unless the Board of Education removes or changes the specified use by taking the same type of action (resolution) it

Martins Ferry City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

employed to previously commit those amounts. In contrast to fund balance that is restricted by enabling legislation, committed fund balance classification may be redeployed for other purposes with appropriate due process. Constraints imposed on the use of committed amounts are imposed by the School District Board of Education, separate from the authorization to raise the underlying revenue; therefore, compliance with these constraints are not considered to be legally enforceable. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned: Amounts in the assigned fund balance classification are intended to be used by the School District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by the School District Board of Education or a School District official delegated that authority by resolution or by State Statute.

Unassigned: Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The School District applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

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 enacted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net assets restricted for other purposes include local resources restricted to expenditures for specific purposes. Of the total restricted net assets, none has 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 asset.

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.

Martins Ferry City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

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.

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

Changes in Accounting Principles - For fiscal year 2011, the School District has implemented Governmental Accounting Standards Board (GASB) Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions."

GASB Statement No. 54 enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The implementation of this statement resulted in the reclassification of certain funds and restatement of the School District's financial statements.

Restatement of Prior Year's Fund Balance –Due to the implementation of GASB Statement No. 54, fund reclassification occurred for one fund that had previously been reported as a special revenue fund that is now being combined with the General Fund in accordance with the new standards. The effect of the change is as follows:

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	Major Fund	Other
	General	Governmental Funds
Fund Balance, June 30, 2010	(\$2,474,963)	\$538,816
Restatement, Fund Classification	660	(660)
Adjusted Fund Balance, June 30, 2010	(\$2,474,303)	\$538,156

NOTE 4 - 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 restricted, committed, or unassigned fund balance (GAAP basis).
4. Advances in and advances out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).
5. Proceeds from and the principal payments on short-term note obligations are reported on the operating statement (budget basis) rather than as balance sheet transactions (GAAP basis).

The following table summarizes the adjustments necessary to reconcile the GAAP and budgetary basis statements for the general fund.

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Net Change in Fund Balances	
	General
GAAP Basis	\$456,789
Revenue Accruals	13,081
Tax Anticipation Notes Issued	500,000
Expenditure Accruals	(343,848)
Advances Out	(1,518)
Debt Service - Principal	(500,000)
Encumbrances	(46,526)
Budget Basis	\$77,978

NOTE 5 – ACCOUNTABILITY AND COMPLIANCE

A. Fund Deficits

At June 30, 2011, the following fund had deficit fund balance:

	<u>Deficit Fund Balance</u>
General Fund	\$2,017,514

The deficit in the General Fund is due to an actual cash deficit in the fund as well as the recognition of liabilities in the funds. The cash deficits are reported as payables to other funds.

B. Legal Compliance

The General Fund and the MFACT Prep Fund, had appropriations in excess of estimated revenue contrary to section 5705.39, Revised Code, in the amount of \$946,798 and \$5,185, respectively. The School District will monitor estimated revenue levels to ensure that appropriations are not in excess of the amount available.

The General Fund had deficit cash balance contrary to section 5705.10, Revised Code, in the amount of \$695,695.

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Expenditures exceeded appropriations contrary to Section 5705.41(B), Revised Code, in the following funds by the following amounts:

Fund	Variance
General (001)	(\$697,913)
Bond Retirement (002)	(11,661)
Non-Public (401)	(32,336)
EMIS (432)	(694)
Education Jobs (504)	(101,500)
Title IV-B (516)	(5,343)
Education Technology (533)	(1,833)
Title I (572)	(76,290)
Title II-A (590)	(7,914)

The School District will monitor actual expenditures on a more regular basis to help ensure appropriations are not exceeded.

NOTE 6 - CASH AND CASH EQUIVALENTS

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;

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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;
4. Bonds and other obligations of the State of Ohio;
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);
7. The State Treasurer's investment pool (STAROhio);
8. Commercial paper and bankers acceptances if training 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, \$701,707 of the School District's bank balance of \$951,707 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 the 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.

NOTE 7 - PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis while the School District's 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.

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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 2011 represents collections of calendar year 2010 taxes. Real property taxes received in calendar year 2011 were levied after April 1, 2010, on the assessed value listed as of January 1, 2010, 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 2011 represents collections of calendar year 2010 taxes. Public utility real and tangible personal property taxes received in calendar year 2011 became a lien December 31, 2009, were levied after April 1, 2010 and are collected in calendar year 2011 with real property taxes. Public utility real property is assessed at 35 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 year 2010 (other than public utility property tax) represents the collection of 2010 taxes levied against local and inter-exchange telephone companies. Tangible personal property tax on business inventory, manufacturing and equipment, furniture and fixtures is no longer levied and collected. Tangible personal property taxes received from telephone companies in calendar year 2010 were levied after October 1, 2009, on the value as of December 31, 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 County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2011, are available to finance fiscal year 2011 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

The amount available as an advance at June 30, 2011, was \$170,117 in the General Fund, \$45,262 in the Debt Service Fund, \$2,649 in the Classroom Maintenance Fund, and \$7,945 in the Permanent Improvement Capital Projects Fund. The amount available as an advance at June 30, 2010, was \$183,204 in the General Fund, \$47,785 in the Debt Service Fund, \$2,841 in the Classroom Maintenance Fund, and \$8,523 in the Permanent Improvement Fund.

Accrued property taxes receivable represents real property, public utility property and tangible personal property taxes which were measurable as of June 30, 2011 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

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

The assessed values upon which the fiscal year 2011 taxes were collected are:

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	2010 Second Half Collections		2011 First Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential And Other Real Estate	\$105,362,170	94.8%	\$105,529,210	94.5%
Public Utility Personal	5,813,890	5.2%	6,085,070	5.5%
	\$111,176,060	100.0%	\$111,614,280	100.0%
Tax Rate per \$1,000 of assessed valuation		\$43.09		\$43.09

NOTE 8 - RECEIVABLES

Receivables at June 30, 2011, consisted of property taxes and interfund receivables. 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. Delinquent property taxes deemed collectible by the County Auditor and recorded as a receivable in the amount of \$558,596 may not be collected within one year. All other receivables are expected to be collected within one year. There were no intergovernmental receivables for fiscal year 2011.

NOTE 9 - INTERNAL BALANCES AND TRANSFERS

A. Interfund Balances

Interfund balances at June 30, 2011, consist of the following interfund receivables and payables:

Interfund Payable	Interfund Receivable		
	Major Funds		Total
	General Fund	Debt Service Fund	
General Fund	\$0	\$706,034	\$706,034
Other Nonmajor Governmental Funds	2,788	0	2,788
Total	\$2,788	\$706,034	\$708,822

Actual cash deficit balance in the General Fund was covered by cash from the Debt Service Fund. The advance from the General Fund to the Miscellaneous State Grants Fund and the Miscellaneous Federal Grants Fund was to cover costs until Federal funds are obtained to finance the activity of the funds.

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B. Transfers

	Transfer to
	General
	Fund
<u>Transfer from</u>	
Other Nonmajor Governmental	\$1,858

The transfer from the Miscellaneous State Grant non-major governmental fund to the General Fund was made to close a fund and transfer the balance into the General Fund.

NOTE 10 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2011, was as follows:

	Balance 6/30/10	Additions	Deletions	Balance 6/30/11
Nondepreciable Capital Assets:				
Land	\$2,436,556	\$0	\$0	\$2,436,556
Total Nondepreciable Capital Assets	2,436,556	0	0	2,436,556
Depreciable Capital Assets:				
Land Improvements	3,987,797	0	(21,701)	3,966,096
Buildings and Improvements	38,587,150	77,840	0	38,664,990
Furniture and Equipment	2,343,902	11,507	0	2,355,409
Vehicles	1,044,048	0	0	1,044,048
Total Depreciable Capital Assets	45,962,897	89,347	(21,701)	46,030,543
Accumulated Depreciation:				
Land Improvements	(520,939)	(202,714)	0	(723,653)
Buildings and Improvements	(2,741,315)	(938,930)	0	(3,680,245)
Furniture and Equipment	(1,231,547)	(241,414)	0	(1,472,961)
Vehicles	(769,904)	(62,791)	0	(832,695)
Total Accumulated Depreciation	(5,263,705)	(1,445,849)	0	(6,709,554)
Total Depreciable Capital Assets, Net	40,699,192	(1,356,502)	(21,701)	39,320,989
Governmental Capital Assets, Net	\$43,135,748	(\$1,356,502)	(\$21,701)	\$41,757,545

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Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$575,507
Special	121,152
Vocational	31,145
Support Services:	
Pupil	18,173
Instructional Staff	60,576
Administration	146,748
Fiscal	12,115
Operation and Maintenance of Plant	160,610
Pupil Transportation	104,982
Food Service Operations	117,615
Operation of Non-Instructional Services	11,481
Extracurricular Activities	85,745
	85,745
Total Depreciation Expense	\$1,445,849

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.

A. Property, Fleet and Commercial Crime Insurance

During fiscal year 2011 the School District contracted with Ohio School Plan for property, fleet, and commercial crime insurance and the Federal Emergency Management Agency (FEMA) for flood coverage. Coverage provided follows:

<i>Property:</i>	
Building and Contents - replacement cost (\$1,000 Deductible)	\$45,104,845
<i>Commercial Auto Coverage:</i>	
Auto Liability-Combined Single Limit	3,000,000
Uninsured Motorists	1,000,000
Medical Payments	5,000
Comprehensive	1,000 deductible
Collision	1,000 deductible
<i>Commercial Crime:</i>	
Employee Theft - Per Employee (\$1,000 Deductible)	25,000
Forgery or Alteration - Per Occurance (\$1,000 Deductible)	25,000
Inside / Outside the Premises - Theft (\$1,000 Deductible)	10,000
<i>Flood Insurance:</i>	
Building and Contents - replacement cost (\$5,000 Deductible)	9,050

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B. Liability Insurance

The District's liability insurance policy is with Ohio School Plan (OSP), a public entity insurance purchasing pool. Each individual school district enters into an agreement with 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:

Educational General Liability:

Bodily Injury and Property Damage - Each Occurrence and Sexual Abuse Injury Limit - Each Sexual Abuse Offense	\$3,000,000
Personal and Advertising Injury - Each Offense Limit	3,000,000
Fire Damage - Any One Event Limit	500,000
Medical Expense - Any One Person Limit	10,000
Each Accident Limit	10,000
General Aggregate Limit	5,000,000
Products-Completed Operations Aggregate Limit	3,000,000

Employers Liability - Stop Gap - Occurrence:

Bodily Injury by Accident - Each Accident Limit	3,000,000
Bodily Injury by Disease - Endorsement Limit	3,000,000
Bodily Injury by Disease - Each Employee Limit	3,000,000

Employee Benefits Liability - Claims Made:

Each Offense Limit	3,000,000
Aggregate Limit	5,000,000

Educational Legal Liability - Claims Made:

Errors and Omissions Injury Limit (\$2,500 Deductible)	3,000,000
Errors and Omissions Injury Aggregate Limit	5,000,000
Employment Practices Injury Limit (\$2,500 Deductible)	3,000,000
Employment Practices Injury Aggregate Limit	5,000,000

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.

C. Worker's Compensation

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. The workers' compensation experience of the participating school district is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the state based on the rate for 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.

NOTE 12 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

Plan Description – The School District participates in the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report can be obtained by visiting the SERS website at www.ohsers.org under Employers/Audit Resources.

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2011, the allocation to pension and death benefits was 11.81 percent. The remaining 2.19 percent of the 14 percent employer contribution rate is allocated to the Medicare B and Health Care funds. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2011, 2010, and 2009 were \$45,888, \$262,862, and \$157,172, respectively; 100 percent has been contributed for fiscal year 2011, 56.7 percent has been contributed for fiscal year 2010 with the balance being reported as an intergovernmental payable and 100 percent has been contributed for fiscal year 2009.

B. State Teachers Retirement System

Plan Description – 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 can be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.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 multiplied by a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by 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 member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DB Plan and the DC 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. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50. Benefits are established by Ohio Revised Code Chapter 3307.

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

Funding Policy - Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon the recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. For the fiscal year ended June 30, 2011, plan members were required to contribute 10 percent of their annual covered salary. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations.

The School District's required contributions to STRS Ohio for the DB Plan and for the defined benefit portion of the Combined Plan were \$731,547 and \$7,389 for the fiscal year ended June 30, 2011, \$846,267 and \$8,548 for the fiscal year ended June 30, 2010, and \$844,874 and \$8,534 for the fiscal year ended June 30, 2009. For fiscal year 2011, 88.22 percent has been contributed for the DB plan and 88.22 percent has been contributed for the Combined Plan, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2010 and 2009.

The School District had no members contributing to STRS Ohio for the DC Plan for fiscal year 2011. In addition, member contributions of \$4,274 were made for fiscal year 2011 for the defined contribution portion of the Combined Plan.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Retirement System. As of June 30, 2011, no members of the Board of Education has elected Social Security. The Board's liability would be 6.2 percent of wages.

NOTE 13 - POSTEMPLOYMENT BENEFITS

A. School Employee Retirement System

Plan Description – The School District participates in two cost-sharing multiple-employer defined benefit other postemployment benefit (OPEB) plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligation to contribute are established by SERS based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

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Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For fiscal year 2011, 1.43 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for fiscal year 2011, this amount was \$35,800. During fiscal year 2011, the School District paid \$22,627 in surcharge.

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

The School District's contributions for health care for the fiscal years ended June 30, 2011, 2010, and 2009 were \$5,556, \$10,316, and \$71,929, respectively; 100 percent has been contributed for fiscal year 2011, 56.7 percent for fiscal year 2010 with the balance being reported as an intergovernmental payable and 100 percent has been contributed for fiscal years 2009.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2011, this actuarially required allocation was 0.76 percent of covered payroll. The School District's contributions for Medicare Part B for the fiscal years ended June 30, 2011, 2010, and 2009, were \$2,953, \$15,681, and \$12,968 respectively; 100 percent has been contributed for fiscal year 2011, 56.7 percent for fiscal year 2010 with the balance being reported as an intergovernmental payable and 100 percent has been contributed for fiscal years 2009.

B. State Teachers Retirement System

Plan Description – The School District participates in the cost-sharing multiple-employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Ohio law authorizes STRS to offer this plan. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which can be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2011, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to post-employment health care. The School District's contributions for health care for the fiscal years ended June 30, 2011, 2010, and 2009 were \$58,645, \$62,010, and \$62,169 respectively. For fiscal year 2011, 85.222 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2010 and 2009.

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 ten to twenty days of vacation per fiscal year, depending upon length of service. Current policy permits vacation leave to be accumulated up to one year. 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 50 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 \$1,462.03 for a family plan and \$544.82 for a single plan. The Health Assurance is at a premium rate of \$1,804.93 for a family plan and \$721.7 for a single plan. The Board pays 97 percent of the premiums for certified employees for either of these health insurance options. The Board pays 97 percent of the premiums for non-certified employees who work a 35 to 40 hours per week. Employees who work less than a 35 hour work week, receive a benefit where, the Board's share of the premium is calculated on a declining scale. The School District also provides dental and life insurance and accidental death and dismemberment insurance to all employees through Coresource which is 100 percent Board paid at a premium of \$62.27 and \$6.25 respectively. Life insurance is provided in the amount of \$50,000 for superintendent, \$40,000 for the treasurer, \$25,000 for certified and administrative employees and \$20,000 for the classified employees. Vision insurance is provided through Vision Benefits of America and the Board pays 100 percent of the \$9.79 premium for those on the single or family plan.

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 \$30,390 outstanding in retirement incentives payable that are scheduled to be repaid through 2013.

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 lesser. During fiscal year 2008, the School District entered into two additional capital leases through the OASBO Expanded Asset Pooled Financing Program with the Columbus Regional Airport Authority to finance additional project costs associated with the classroom facilities project. During fiscal year 2008, the School District also entered into a capital lease for Xerox copiers, which was terminated early in August, 2012, see Subsequent Event Note 23 for further details.

Martins Ferry City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

The leases meet 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 assets acquired by the leases have been capitalized in government wide statements governmental activities as land, buildings and improvements, and furniture, fixtures and equipment in the amount of \$4,813,028, which is equal to the present value of the minimum lease payments at the time of acquisition. A corresponding liability was recorded in the government wide statements governmental activities for the total value of the lease. Governmental activities assets are reflected net of accumulated depreciation, \$3,945,767. Principal payments in fiscal year 2011 totaled \$115,881 in the governmental funds.

Future minimum lease payments through 2036 are as follows:

<u>Fiscal Year Ending</u>	<u>Principal</u>	<u>Interest and Fiscal Charges</u>	<u>Total</u>
2012	\$309,600	\$238,458	\$548,058
2013	135,118	161,444	296,562
2014	142,979	155,451	298,430
2015	150,874	149,094	299,968
2016	158,806	142,373	301,179
2017-2021	878,394	595,046	1,473,440
2022-2026	798,094	402,618	1,200,712
2027-2031	865,359	199,809	1,065,168
2032-2036	371,994	34,354	406,348
Total	<u>\$3,811,218</u>	<u>\$2,078,647</u>	<u>\$5,889,865</u>

NOTE 16 TAX ANTICIPATION NOTE

On December 31, 2010, the School District issued a Tax Anticipation Note in the amount of \$500,000 with an interest rate of 3.50 percent with a maturity date of March 31, 2011, for operating cash flow purposes. The School District repaid the note in full on March 16, 2011 with \$500,000 principal and \$4,424 interest.

NOTE 17 - LONG - TERM OBLIGATIONS

The changes in the School District's long-term obligations during fiscal year 2011 were as follows:

Martins Ferry City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

	Principal Outstanding 6/30/10	Additions	Deductions	Principal Outstanding 6/30/11	Amounts Due In One Year
2005 School Construction and Improvement General Obligation Bonds					
Serial Bonds, \$4,940,000 @ 3.0%-4.55%	\$4,200,000	\$0	\$180,000	\$4,020,000	\$180,000
Term Bonds, \$5,580,000 @ 5.0%	5,580,000	0	0	5,580,000	0
Premium, \$355,273	288,661	0	12,688	275,973	0
Total Bonds and Loans	10,068,661	0	192,688	9,875,973	180,000
Capital Leases	3,927,099	0	115,881	3,811,218	309,600
Compensated Absences	877,365	462,480	527,703	812,142	66,734
Total General Long-Term Obligations	\$14,873,125	\$462,480	\$836,272	\$14,499,333	\$556,334

The capital leases will be repaid from the Permanent Improvement Capital Projects Fund, State Fiscal Stabilization Special Revenue Fund, and General Fund. Compensated absences will be paid from the General Fund and Food Service Special Revenue Fund.

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:

Date	Principal Amount to be Redeemed
2016	\$265,000

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 percent 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
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

<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 percent 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 percent 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>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.

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 30, 2015, at 100 percent 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, 2011 are as follows:

Martins Ferry City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

Fiscal Year Ending June 30	Principal	Interest	Total
2012	\$180,000	\$465,202	\$645,202
2013	185,000	458,676	643,676
2014	210,000	451,100	661,100
2015	215,000	442,600	657,600
2016	220,000	433,900	653,900
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>\$9,600,000</u>	<u>\$6,626,478</u>	<u>\$16,226,478</u>

The School District's overall legal debt margin was \$925,300, with an unvoted debt margin of \$111,614, at June 30, 2011. Although the School District's overall legal debt margin was \$925,300 at June 30, 2011, it was higher at the point of debt issuance 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. The School District issued the general obligation bonds prior to the revised legislation.

Bond Insurance:

2005 School Construction and Improvement General Obligation Bonds – On November 25, 2008, Financial Security Assurance, Inc. (FSA) was downgraded by Moody's Investor Services from Aaa to Aa3. On July 1, 2009, FSA, the original bond insurer for this bond issue, was acquired by Assured Guaranty Corp. On December 18, 2009, Assured Guaranty Corp.'s rating was confirmed at Aa3. On March 5, 2010, a credit opinion was issued by Moody's Investor Services, for Assured Guaranty Corp., at Aa3, which represented no change from the previous action.

The downgrade of a bond insurer may not, in and by itself, create an immediate default under the bond indentures or other bond documents or cause any reallocation of rights or responsibilities among parties; however, it will likely have an adverse effect on the value of the bonds as they are traded in the secondary market.

The School District and/or obligated person, as provided under 17 C.F.R. 240.15c2-12, did not file with the Electronic Municipal Market Access (EMMA) system the required Material Event Notices referencing the relevant transactions and rating downgrades which had occurred by June 30, 2011.

NOTE 18 - JOINTLY GOVERNED ORGANIZATIONS

Belmont-Harrison Vocational School District – 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 seven participating school district's elected boards, which possesses its own budgeting and taxing authority. During fiscal year 2011, the School District made no contributions

Martins Ferry City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

to the Vocational School District. To obtain financial information write to the Belmont-Harrison Vocational School, Mark Lucas, who serves as Treasurer, at Fox Shannon Road, St. Clairsville, Ohio 43950.

Ohio Mid-Eastern Regional Educational Service Agency Information Technology Center Regional Council of Governments - The School District participates in the Ohio Mid-Eastern Regional Educational Service Agency Information Technology Center Regional Council of Governments (Council). The Council was created as a separate regional council of governments pursuant to State Statutes. The Council operates under the direction of a Board comprised of a representative from each participating school district. The Board possesses its own budgeting authority. The Council provides information technology and internet access to member districts, as well as cooperative purchasing programs. During fiscal year 2011, the total amount paid to OME-RESA from the School District was \$99,973 for cooperative gas purchasing services, \$35,965 for technology services and \$22,262 for financial accounting services and educational management information. The Jefferson County Educational Service Center serves as the fiscal agent. To obtain financial information write to Ohio Mid-Eastern Regional Educational Service Agency, Treasurer, at 2023 Sunset Blvd., Steubenville, Ohio 43952.

Educational Regional Service System Region 12 (ERSS) - The School District participates in the Educational Regional Service System Region 12 (ERSS), a jointly governed organization consisting of educational entities within Belmont, Carroll, Coshocton, Guernsey, Harrison, Holmes, Jefferson, Monroe, Muskingum, Noble and Tuscarawas counties. The purpose of the ERSS is to provide support services to school districts, community schools, and chartered nonpublic schools within the region by supporting State and school initiatives and efforts to improve school effectiveness and student achievement with a specific reference to the provision of special education and related services. The ERSS is governed by an advisory council, which is the policymaking body for the educational entities within the region, who identifies regional needs and priorities for educational services and develops corresponding policies to coordinate the delivery of services. They are also charged with the responsibility of monitoring the implementation of State and regional initiatives and school improvement efforts. The Advisory Council is made up of the director of the ERSS, the superintendent of each educational service center within the region, the superintendent of the region's largest and smallest school district, the director and an employee from each education technology center, one representative of a four-year institution of higher education and appointed by the Ohio Board of Regents, one representative of a two-year institution of higher education and appointed by the Ohio Association of Community Colleges, three board of education members (one each from a city, exempted village, and local school district within the region), and one business representative. The degree of control exercised by any participating educational entity is limited to its representation on the Advisory Council. Financial information can be obtained from the Muskingum Valley Educational Service Center, 205 North Seventh Street, Zanesville Ohio, 43701.

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 of data regarding conditions of education in the region; cooperates with other professional groups to assess and develop programs designed to meet the needs of member districts; and provides staff development programs for school district personnel. The Council is not dependent on the continued participation of the School District and the School District does not maintain an equity interest in or financial responsibility for the Council. The School District's membership fee was \$325 for fiscal year 2011.

Martins Ferry City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

NOTE 19 – RELATED ORGANIZATIONS

The Martins Ferry Public Library is a district 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 (OSP) – 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. 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.

Pursuant to State statute, the Board of Education expended all of the amounts previously set-aside for the budget reserve.

Martins Ferry City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

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 Restricted Balance as of June 30, 2010	\$0	\$0
Current Year Set-aside Requirement	218,716	218,716
Excess Qualified Expenditures from Prior Fiscal Years	(222,195)	0
Current Year Qualifying Expenditures	(161,234)	0
Current Year "Offsets"	0	(234,105)
Totals	(\$164,713)	(\$15,389)
Balance Carried Forward to Fiscal Year 2012	\$0	\$0
Set-aside Restricted Balance as of June 30, 2011	\$0	\$0

Effective July 1, 2011, House Bill 30, the "Unfunded Mandates Relief Act", eliminates the requirement that school districts annually set aside an amount per pupil into a textbook and instructional materials fund.

The School District had offsets during the current fiscal year that reduced the set-aside amount for capital improvements to below zero that may not be carried forward to future years. The School District also has prior year capital expenditures paid from debt proceeds in connection with a school facilities project and an energy conservation project that may be carried forward to offset future set-aside requirements.

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, 2011.

B. Litigation

The School District is currently party to pending litigation. It is not possible at this time to make a judgment as to whether there is a reasonable possibility of an unfavorable outcome which could result in a material judgment against the School District.

NOTE 23 - SUBSEQUENT EVENTS

A. Capital Lease Early Termination

Effective August 15, 2011, the School District entered into a lease for copying equipment with MOS Equipment, and financed by GE Capital. The new lease included the early termination of the existing Xerox lease, effective through August, 2011.

B. Expenditure Reduction Plan

On May 9, 2011, the Board of Education passed a resolution for an expenditure reduction plan to be effective August 1, 2012. The resolution provides for the return of the previously enacted 5 percent uniform salary reduction, with the following reductions to compensate for the reinstatement and additional loss of state and federal funding:

1. Reduction in staff of eight positions. Four retiring teachers will not be replaced and one teacher will be laid-off. The classroom duties will be covered by restructuring of schedules and duties. Three classified staff who will be retiring will not be replaced.
2. Continuation of the 5 percent uniform salary reduction and salary freeze until August 1, 2012.
3. Reduction of one paid day for all administrative and non-union personnel.
4. Elimination of one day's service per week of ESC speech pathologist.
5. Review of Services and Spending.
6. Total savings above and beyond the 5 percent uniform reduction \$428,800.

**MARTINS FERRY CITY SCHOOL DISTRICT
BELMONT COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

FEDERAL GRANTOR/ Pass-Through Grantor Program Title	Pass-through Entity Number	Federal CFDA Number	Receipts	Expenditures
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
<i>Passed-Through Ohio Department of Education:</i>				
Child Nutrition Cluster:				
Non-Cash Assistance (Food Distribution):				
National School Lunch Program	N/A	10.555	\$17,959	\$17,959
Cash Assistance:				
School Breakfast Program	044347-05PU-11	10.553	140,811	140,811
National School Lunch Program	044347-LLP4-11	10.555	282,191	282,191
Cash Assistance SubTotal			<u>423,002</u>	<u>423,002</u>
Total U.S. Department of Agriculture/Child Nutrition Cluster			440,961	440,961
<u>U.S. DEPARTMENT OF EDUCATION</u>				
<i>Passed-Through Ohio Department of Education:</i>				
Title I, Part A Cluster:				
Title I Grants to Local Educational Agencies	044347-C1S1-10	84.010	71,164	80,266
	044347-C1S1-11		<u>321,703</u>	<u>301,813</u>
Title I Grants to Local Educational Agencies Subtotal			392,867	382,079
ARRA - Title I Grants to Local Educational Agencies, Recovery Act				
	044347-10	84.389	19,287	35,117
	044347-11		<u>114,473</u>	<u>114,473</u>
ARRA - Title I Grants to Local Educational Agencies, Recovery Act Subtotal			<u>133,760</u>	<u>149,590</u>
Total Title I, Part A Cluster			526,627	531,669
Special Education, Cluster (IDEA):				
Special Education, Grants to States (IDEA, Part B)				
	044347-6BSF-10	84.027	13,150	23,551
	044347-6BSF-11		<u>350,145</u>	<u>350,145</u>
Special Education, Grants to States (IDEA, Part B) Subtotal			363,295	373,696
ARRA - Special Education, Grants to States (IDEA, Part B), Recovery Act				
	044347-10	84.391	32,000	48,373
	044347-11		<u>52,574</u>	<u>52,574</u>
ARRA - Special Education, Grants to States (IDEA, Part B), Recovery Act Subtotal			<u>84,574</u>	<u>100,947</u>
Total Special Education Cluster (IDEA)			447,869	474,643
Education Technology State Grants	044347-TJS1-11	84.318	1,833	1,833
Improving Teacher Quality State Grants	044347-TRS1-10	84.367	14,696	21,220
	044347-TRS1-11		<u>55,689</u>	<u>55,094</u>
Total Improving Teacher Quality State Grants			70,385	76,314
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act				
	044347-10	84.394		37,801
	044347-11		<u>679,092</u>	<u>420,056</u>
Total ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act			679,092	457,857
Education Jobs Fund	044347-11	84.410	<u>101,500</u>	<u>101,500</u>
Total U.S. Department of Education			<u>1,827,306</u>	<u>1,643,816</u>
Total Federal Awards Receipts and Expenditures			<u>\$2,268,267</u>	<u>\$2,084,777</u>

The Notes to the Federal Awards Receipts and Expenditures Schedule is 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, 2011**

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – CHILD NUTRITION CLUSTER

The School District commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the School District assumes it expends federal monies first.

NOTE C – FOOD DONATION PROGRAM

The School District reports commodities consumed on the Schedule at the fair value. The School District allocated donated food commodities to the respective program that benefitted from the use of those donated food commodities.



Dave Yost • 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
5001 Ayers Limestone Road
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 the Martins Ferry City School District, Belmont County, Ohio (the School District), as of and for the year ended June 30, 2011, which collectively comprise the School District's basic financial statements and have issued our report thereon dated February 16, 2012, wherein we noted the School District is experiencing financial difficulties. We also noted the School District adopted Governmental Accounting Standards Board Statement No. 54. 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 as a basis for designing our audit procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of opining on the effectiveness of the School District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the School District's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A material weakness is a deficiency or combination of deficiencies in internal control such that there is a reasonable possibility that material financial statement misstatements will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying Schedule of Findings that we consider a significant deficiency in internal control over financial reporting. We consider finding 2011-005 to be a significant deficiency. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of reasonably assuring whether the School District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards*, which are described in the accompanying Schedule of Findings as items 2011-001 through 2011-004.

We also noted certain matters not requiring inclusion in this report that we reported to the School District's management in a separate letter dated February 16, 2012.

The School District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. We did not audit the School District's responses and, accordingly, we express no opinion on them.

We intend this report solely for the information and use of management, the audit committee, Board of Education, federal awarding agencies, pass-through entities, and others within the School District. We intend it for no one other than these specified parties.



Dave Yost
Auditor of State

February 16, 2012



Dave Yost • Auditor of State

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

Martins Ferry City School District
Belmont County
5001 Ayers Limestone Road
Martins Ferry, Ohio 43935

To the Board of Education:

Compliance

We have audited the compliance of 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 could directly and materially affect each of the School District's major federal programs for the year ended June 30, 2011. The Summary of Auditor's results section of the accompanying Schedule of Findings identifies the School District's major federal programs. The School District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to opine on the School District's compliance based on our audit.

Our compliance audit followed auditing standards generally accepted in the United States of America; the standards applicable to financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the 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 these 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 these requirements.

As described in Finding 2011-006 in the accompanying Schedule of Findings, the School District did not comply with requirements regarding cash management applicable to its State Fiscal Stabilization Fund – Education State Grants major federal program. Compliance with this requirement is necessary, in our opinion, for the School District to comply with requirements applicable to this program.

In our opinion, except for the noncompliance described in the preceding paragraph, the School District complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2011.

Internal Control over Compliance

The School District's management is responsible for establishing and maintaining effective internal control over compliance with the 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 the 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, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the School District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, we cannot assure we have identified all deficiencies, significant deficiencies, or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings as item 2011-006 to be a material weakness.

We also noted another matter involving federal compliance or internal control over federal compliance not requiring inclusion in this report, that we reported to the School District's management in a separate letter dated February 16, 2012.

The School District's response to the finding we identified is described in the accompanying Schedule of Findings. We did not audit the School District's response and, accordingly, we express no opinion on it.

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



Dave Yost
Auditor of State

February 16, 2012

**MARTINS FERRY CITY SCHOOL DISTRICT
BELMONT COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	Yes
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weakness reported for major federal programs?	Yes
(d)(1)(iv)	Were there any significant deficiencies in internal control reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified for all major programs, except for the Cash Management requirement applicable to the State Fiscal Stabilization Fund – Education State Grants program, which we qualified.
(d)(1)(vi)	Are there any reportable findings under § .510(a)?	Yes
(d)(1)(vii)	Major Programs (list):	Title I, Part A Cluster – CFDA #84.010 and #84.389 Special Education Cluster (IDEA) – CFDA #84.027 and #84.391 State Fiscal Stabilization Fund – Education State Grants, Recovery Act - CFDA #84.394
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

**MARTINS FERRY CITY SCHOOL DISTRICT
BELMONT COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

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

FINDING NUMBER 2011-001

Noncompliance Citation

Ohio Rev. Code Section 5705.10 states that money paid into any fund shall be used only for the purposes for which such fund was established. As a result, a deficit fund balance indicates that money from one fund was used to cover the expenses of another fund.

The General Fund reflected a negative cash fund balance at year end in the amount of \$695,695.

We recommend the Treasurer monitor fund balances to properly ensure that monies from one fund are not utilized to pay the obligations of another fund. To cover temporary cash flow shortages, the School District may be able to advance money from other funds. The School District can refer to Auditor of State Bulletin 97-003 to determine if an advance of funds to prevent a deficit cash balance would be appropriate.

Officials' Response: Martins Ferry City Schools implemented a 5% pay reduction for FY11 and FY12, as well as changes to the employee copays for prescription drugs, emergency room visits, and doctor visits to aid in transforming the negative cash fund balance to a positive one. The non-replacement of certain employees through attrition has reduced some of the burden on salaries and benefits. Plus, all expenditures are being monitored more closely.

FINDING NUMBER 2011-002

Noncompliance Citation

Ohio Rev. Code Section 5705.39 provides, in part, that total appropriations from each fund shall not exceed the total of the estimated revenue available for expenditure therefrom, as certified by the County Budget Commission.

At June 30, 2011, the following funds had appropriations which exceeded estimated resources:

Fund	Estimated Resources	Appropriations	Variance
General (001)	\$10,636,802	\$11,583,600	(\$946,798)
MFACT Prep (019)	5,185	10,370	(5,185)

We recommend the Board of Education and the Treasurer monitor appropriations and estimated resources and file amendments as needed with the County Auditor to ensure the total appropriations from each fund does not exceed the total official estimate or amended official estimate. This will help to reduce the risk of disbursements exceeding actual revenues available and will add a measure of control over the School District's budgetary process.

Officials' Response: The Treasurer will monitor that expenditures will be appropriated and amendments filed in a timely manner in the appropriate fiscal year.

**MARTINS FERRY CITY SCHOOL DISTRICT
BELMONT COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

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

FINDING NUMBER 2011-003

Noncompliance Citation

Ohio Rev. Code Section 5705.41(B) prohibits a subdivision or taxing authority from making an expenditure unless it has been properly appropriated.

As of June 30, 2011, the following funds reflected expenditures which exceeded appropriations:

Fund	Appropriations	Expenditures	Variance
General (001)	\$11,583,600	\$12,281,513	(\$697,913)
Bond Retirement (002)	656,000	667,661	(11,661)
Non-Public (401)	98,000	130,336	(32,336)
EMIS (432)	9,000	9,694	(694)
Education Jobs (504)	0	101,500	(101,500)
Title IV-B (516)	469,300	474,643	(5,343)
Education Technology (533)	0	1,833	(1,833)
Title I (572)	455,400	531,690	(76,290)
Title II-A (590)	68,400	76,314	(7,914)

We recommend the School District Board and Treasurer compare expenditures to appropriations on a monthly basis. If appropriations in addition to those already adopted will be needed, the Board should take the necessary steps to adopt additional appropriations, if possible, to prevent expenditures from exceeding appropriations or reduce spending. The Treasurer should not certify the availability of funds and should deny payment requests exceeding appropriations.

Officials' Response: The SM12 is a monthly report that compares the estimated general fund monthly expenditures with the actual ones. This report is a tool that will be presented to the Board on a monthly basis with an explanation of the differences and possible recommendations to bring the numbers more closely aligned. The special funds will also be more closely monitored.

**MARTINS FERRY CITY SCHOOL DISTRICT
BELMONT COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

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

FINDING NUMBER 2011-004

Noncompliance Citation

Ohio Rev. Code Section 5705.41(D)(1) prohibits a subdivision or taxing authority from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance. Further, contracts and orders for expenditures lacking prior certification shall be null and void.

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in Sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code:

Then and Now Certificate – If the fiscal officer can certify that both at the time the contract or order was made "then" and at the time that the fiscal officer is completing the certification "now", that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any encumbrance, the School District can authorize the drawing of a warrant for the payment of the amount due. The School District has 30 days from the receipt of the "then and now" certificate to approve payment by resolution or ordinance.

Amounts of less than \$3,000, may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the School District.

Blanket Certificate – Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.

Super Blanket Certificate – The School District may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line-item appropriation.

**MARTINS FERRY CITY SCHOOL DISTRICT
BELMONT COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

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

**FINDING NUMBER 2011-004
(Continued)**

Noncompliance Citation - Ohio Rev. Code Section 5705.41(D)(1) (Continued)

Although the obligations paid by the School District had a statement indicating the purchase was lawfully appropriated or in the process of collection to the credit of an appropriate fund, and free from any previous encumbrance, this certification of available funds was not obtained prior to incurring the obligation for 44% of transactions tested, and there was no evidence of a "Then and Now" certificate being utilized.

Failure to properly certify the availability of funds can result in overspending of funds and negative cash fund balances.

Unless the exceptions noted above are used, prior certification is not only required by statute, but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the School District's funds exceeding budgetary spending limitations, we recommend the Treasurer certify that funds are or will be available prior to obligations being incurred by the School District. When prior certification is not possible, "then and now" certificates should be used.

Officials' Response: The Superintendent and Treasurer's office have taken measures to improve the chronological order of non-payroll expenditures, with certification of funds being made prior to expenditures, with the exceptions as listed.

FINDING NUMBER 2011-005

Significant Deficiency

As part of the School District's internal control process over non-payroll expenditures, when goods have been received, the invoice, packing slip or documentation accompanying the purchase, should be marked "okay to pay" by the receiver and such information should be sent to the Treasurer's office. Invoices are matched with the purchase orders by the Treasurer's Fiscal Assistant for all expenditures. Payments cannot be made unless there is a purchase order number to charge the expenditure against. The Treasurer's Fiscal Assistant then prepares the purchase order for payment by marking the purchase order as "paid or "partial payment" and attaches the purchase order to the requisition (if applicable) and invoice.

Although there were purchase orders for all expenditures tested, for 71% of expenditures tested the invoices were not marked "okay to pay", nor was there any other indication that these goods or services were received.

To prevent unauthorized payments to vendors, we recommend when goods or services have been received, the authorized School District employee indicate on the invoice that it is "okay to pay". If the invoice or requisition is not marked "okay to pay" the Treasurer's office should not process the payment until the matter is resolved.

Officials' Response: A procedure has been implemented to address the issue of verifying actual receipt of non-payroll items. No invoices will be paid unless this verification is received.

**MARTINS FERRY CITY SCHOOL DISTRICT
BELMONT COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

3. FINDINGS FOR FEDERAL AWARDS

FINDING NUMBER 2011-006

Finding Number	2011-006
CFDA Title and Number	ARRA - State Fiscal Stabilization Fund - Education State Grants, Recovery Act; CFDA #84.394
Federal Award Number / Year	2011
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

Noncompliance and Material Weakness – Cash Management

34 C.F.R. 80.20(b)(7) states in part that procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees must be followed whenever advance payment procedures are used. When advances are made by letter-of-credit or electronic transfer of funds methods, the grantee must make drawdowns as close as possible to the time of making disbursements.

An ODE Policy and Guidance Memo, *SFSF Final Payments and Cash Management*, indicated the funding method for SFSF differs from other ARRA funds; however, cash management rules apply to the SFSF funds. Districts must expend the funds that are included in the foundation payments for the SFSF program in accordance with federal regulations.

The School District received State Fiscal Stabilization Funds through the Ohio Department of Education Foundation Program. Foundation payments were sent automatically to the School District on a bi-monthly basis. The School District must spend advances within 30 days or by the end of the month, whichever occurs first.

The School District did not expend State Fiscal Stabilization funds by the required 30 days for 23 of the 24 advances received in fiscal year 2011.

While imputed interest was not excessive, we note that failure to timely expend funds can result in excessive interest earned and questioned costs.

We recommend the School District Treasurer review fund balances periodically to ensure that all federal receipts are expended within the required period.

Officials' Response and Corrective Action Plan: The Treasurer began her position in the middle of the fiscal year and being new to receiving SFSF funds, she was unaware of the guidelines to deplete the advances within 30 days. I was following past practice, which obviously I should have researched myself. In going forward, if any new funding should become available, I would take measures to ensure my awareness of such and proceed accordingly. Responsible contact person – Karen Blake, Treasurer; Anticipated completion date – June 30, 2012

**MARTINS FERRY CITY SCHOOL DISTRICT
BELMONT COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A-133 § .315 (b)
JUNE 30, 2011**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2010-001	Ohio Rev. Code Section 5705.10(H), general fund reflected a negative cash fund balance at year-end.	No	Not Corrected; Reissued as Finding No. 2011-001.
2010-002	Ohio Rev. Code Section 5705.39, appropriations exceeded estimated resources in several funds.	No	Not Corrected; Reissued as Finding No. 2011-002.
2010-003	Ohio Rev. Code Section 5705.41(D), not always certifying the availability of funds prior to incurring obligations.	No	Not Corrected; Reissued as Finding No. 2011-004.
2010-004	Ohio Rev. Code Section 149.351(A), missing voucher packages.	No	Partially Corrected; Reissued in Management Letter.
2010-005	Significant Deficiency – Not always indicating “Okay to Pay” on invoices verifying goods or services were actually received prior to paying the vendor.	No	Not Corrected; Reissued as Finding No. 2011-005.



Dave Yost • Auditor of State

Independent Accountants' Report on Applying Agreed-Upon Procedure

Martins Ferry City School District
Belmont County
5001 Ayers Limestone Road
Martins Ferry, Ohio 43935

To the Board of Education:

Ohio Rev. Code Section 117.53 states "the auditor of state shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The auditor of state shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school."

Accordingly, we have performed the procedure enumerated below, which was agreed to by the Board, solely to assist the Board in evaluating whether the Martins Ferry City School District, Belmont County, Ohio (the School District), has updated its anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedure engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of this procedure is solely the responsibility of the Board. Consequently, we make no representation regarding the sufficiency of the procedure described below either for the purpose for which this report has been requested or for any other purpose.

1. We noted the Board amended its anti-harassment policy at its meeting on November 9, 2010 to include violence within a dating relationship within its definition of harassment, intimidation or bullying.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board of Education and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

February 16, 2012

743 East State Street, Athens Mall Suite B, Athens, Ohio 45701-2157
Phone: 740-594-3300 or 800-441-1389 Fax: 740-594-2110
www.ohioauditor.gov



Dave Yost • 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, 2012**