



**Auditor of State  
Betty Montgomery**



MARTINS FERRY CITY SCHOOL DISTRICT  
BELMONT COUNTY

TABLE OF CONTENTS

<u>TITLE</u>	<u>PAGE</u>
Independent Accountants' Report .....	1
General Purpose Financial Statements:	
Combined Balance Sheet - All Fund Types and Account Groups.....	4
Combined Statement of Revenues, Expenditures and Changes in Fund Balances – All Governmental Fund Types .....	8
Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Budget Basis) - All Governmental Fund Types.....	9
Statement of Revenues, Expenses and Changes in Fund Equity - Proprietary Fund Type.....	12
Statement of Revenues, Expenses and Changes in Fund Equity - Budget and Actual (Budget Basis) - Proprietary Fund Type .....	13
Statement of Cash Flows - Proprietary Fund Type .....	14
Notes to the General Purpose Financial Statements .....	15
Schedule of Federal Awards Receipts and Expenditures .....	41
Notes to Schedule of Federal Awards Receipts and Expenditures.....	42
Independent Accountants' Report on Compliance and on Internal Control Required by <i>Government Auditing Standards</i> .....	43
Independent Accountants' Report on Compliance with Requirements Applicable to Major Federal Programs and Internal Control over Compliance in Accordance with OMB Circular A-133.....	45
Schedule of Findings - <i>OMB Circular A-133 Section .505</i> .....	47
Schedule of Prior Audit Finding - <i>OMB Circular A-133 Section .315 (b)</i> .....	49
Corrective Action Plan – <i>OMB Circular A-133 Sectionj .315(c)</i> .....	50

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# Auditor of State Betty Montgomery

## INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying general purpose financial statements of the Martins Ferry City School District, Belmont County, Ohio (the School District), as of and for the year ended June 30, 2003, as listed in the table of contents. These general purpose financial statements are the responsibility of the School District's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

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

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Martins Ferry City School District, Belmont County, as of June 30, 2003, and the results of its operations and the cash flows of its proprietary fund type for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 7, 2003, 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Martins Ferry City School District  
Belmont County  
Independent Accountants' Report  
Page 2

The accompanying Schedule of Federal Awards Receipts and Expenditures is presented for additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the general purpose financial statements. We subjected this information to the auditing procedures applied in the audit of the general purpose financial statements. In our opinion, it is fairly stated, in all material respects, in relation to the general purpose financial statements taken as whole.

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

**Betty Montgomery**  
Auditor of State

November 7, 2003

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**Martins Ferry City School District, Ohio  
 Combined Balance Sheet  
 All Fund Types and Account Groups  
 June 30, 2003**

	<b>Governmental Fund Types</b>		
	<b>General</b>	<b>Special Revenue</b>	<b>Capital Projects</b>
<b><u>Assets and Other Debits:</u></b>			
<b><u>Assets:</u></b>			
Equity in Pooled Cash and Cash Equivalents	\$1,554,090	\$149,208	\$123,923
Receivables:			
Property and Other Taxes	3,107,294		189,929
Accounts		736	
Intergovernmental	6,758	292,096	
Accrued Interest	13,576		
Interfund Receivable	7,000		
Materials and Supplies Inventory	1,779		
Inventory Held for Resale			
Prepaid Items	20,723		
Fixed Assets (Net, where applicable, of Accumulated Depreciation)			
 <i><u>Other Debits:</u></i>			
Amount to be Provided from General Government Resources			
 <b>Total Assets and Other Debits</b>	<b>\$4,711,220</b>	<b>\$442,040</b>	<b>\$313,852</b>



Proprietary Fund Type	Fiduciary Fund Type	Account Groups		Totals (Memorandum Only)
		General Fixed Assets	General Long-Term Obligations	
Enterprise	Agency			
\$95,726	\$36,105	\$	\$	\$1,959,052
				3,297,223
				736
				298,854
				13,576
				7,000
1,081				2,860
15,630				15,630
				20,723
14,926		6,275,518		6,290,444
			1,007,581	1,007,581
<b>\$127,363</b>	<b>\$36,105</b>	<b>\$6,275,518</b>	<b>\$1,007,581</b>	<b>\$12,913,679</b>

(continued)

**Martins Ferry City School District, Ohio  
 Combined Balance Sheet  
 All Fund Types and Account Groups  
 June 30, 2003**

	Governmental Fund Types		
	General	Special Revenue	Capital Projects
<b><u>Liabilities Fund Equity and Other Credits:</u></b>			
<b><u>Liabilities:</u></b>			
Accounts Payable	\$113,971	\$8,582	\$1,275
Accrued Wages and Benefits	587,770	124,104	
Compensated Absences Payable	55,817		
Interfund Payable		7,000	
Intergovernmental Payable	132,188	28,571	12
Deferred Revenue	2,986,386	162,678	181,355
Undistributed Monies			
Due to Students			
Early Retirement Incentive Payable	17,350		
	17,350		
Total Liabilities	3,893,482	330,935	182,642
<b><u>Fund Equity and Other Credits:</u></b>			
Investment in General Fixed Assets			
Contributed Capital			
Retained Earnings:			
Unreserved			
Fund Balance:			
Reserved for Encumbrances	39,062	52,218	8,288
Reserved for Inventory	1,779		
Reserved for Property Taxes	120,908		8,574
Unreserved:			
Undesignated	655,989	58,887	114,348
	655,989	58,887	114,348
Total Fund Equity and Other Credits	817,738	111,105	131,210
<b>Total Liabilities, Fund Equity and Other Credits</b>	<b>\$4,711,220</b>	<b>\$442,040</b>	<b>\$313,852</b>

See accompanying notes to the general purpose financial statements

Proprietary Fund Type	Fiduciary Fund Type	Account Groups		Totals (Memorandum Only)
		General Fixed Assets	General Long-Term Obligations	
Enterprise	Agency			
\$256	\$	\$	\$	\$124,084
8,498				720,372
16,912			932,496	1,005,225
				7,000
18,557			70,755	250,083
				3,330,419
	112			112
	35,993			35,993
			4,330	21,680
<u>44,223</u>	<u>36,105</u>	<u>0</u>	<u>1,007,581</u>	<u>5,494,968</u>
		6,275,518		6,275,518
79,748				79,748
3,392				3,392
				99,568
				1,779
				129,482
				829,224
<u>83,140</u>	<u>0</u>	<u>6,275,518</u>	<u>0</u>	<u>7,418,711</u>
<u><b>\$127,363</b></u>	<u><b>\$36,105</b></u>	<u><b>\$6,275,518</b></u>	<u><b>\$1,007,581</b></u>	<u><b>\$12,913,679</b></u>

**Martins Ferry City School District, Ohio**  
**Combined Statement of Revenues, Expenditures and**  
**Changes In Fund Balances**  
**All Governmental Fund Types**  
**For the Fiscal Year Ended June 30, 2003**

	<u>Governmental Fund Types</u>			<u>Totals</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>(Memorandum Only)</u>
<b>Revenues:</b>				
Property and Other Taxes	\$2,556,359	\$	\$166,871	\$2,723,230
Intergovernmental	5,609,305	1,727,730	19,677	7,356,712
Interest	32,234			32,234
Tuition and Fees	19,660			19,660
Extracurricular Activities		110,004		110,004
Gifts and Donations		3,025	37,919	40,944
Customer Service	4,144			4,144
Miscellaneous	8			8
<b>Total Revenues</b>	<b>8,221,710</b>	<b>1,840,759</b>	<b>224,467</b>	<b>10,286,936</b>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular	3,788,042	622,023	283,708	4,693,773
Special	635,329	482,820		1,118,149
Vocational	162,178	10,192		172,370
Other	29,812			29,812
Support Services:				
Pupils	431,210	43,070		474,280
Instructional Staff	286,834	313,729	31,992	632,555
Board of Education	36,199			36,199
Administration	775,092	91,090	37,327	903,509
Fiscal	229,236	2,203	12,070	243,509
Operation and Maintenance of Plant	960,942		11,802	972,744
Pupil Transportation	392,538	270		392,808
Central	6,937	27,809		34,746
Operation of Non-Instructional Services		147,211		147,211
Extracurricular Activities	147,616	108,721	10,803	267,140
Capital Outlay			142,251	142,251
<b>Total Expenditures</b>	<b>7,881,965</b>	<b>1,849,138</b>	<b>529,953</b>	<b>10,261,056</b>
Excess of Revenues Over (Under) Expenditures	339,745	(8,379)	(305,486)	25,880
<b>Other Financing Sources:</b>				
Proceeds From Sale of Fixed Assets	3,308			3,308
<b>Total Other Financing Sources</b>	<b>3,308</b>	<b>0</b>	<b>0</b>	<b>3,308</b>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures	343,053	(8,379)	(305,486)	29,188
Fund Balances at Beginning of Year - Restated Note 3	474,861	119,484	436,696	1,031,041
Decrease in Reserve for Inventory	(176)			(176)
<b>Fund Balances at End of Year</b>	<b>\$817,738</b>	<b>\$111,105</b>	<b>\$131,210</b>	<b>\$1,060,053</b>

See accompanying notes to the general purpose financial statements

**Martins Ferry City School District, Ohio**  
**Combined Statement of Revenues, Expenditures and Changes**  
**In Fund Balances - Budget and Actual (Budget Basis)**  
**All Governmental Fund Types**  
**For the Fiscal Year Ended June 30, 2003**

	<u>General Fund</u>		
	<u>Revised Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>Revenues:</b>			
Property and Other Taxes	\$2,680,000	\$2,573,302	(\$106,698)
Intergovernmental	5,046,000	5,615,567	569,567
Interest	25,000	28,598	3,598
Tuition and Fees	20,000	19,680	(320)
Extracurricular Activities			
Gifts and Donations			
Customer Services	10,000	4,144	(5,856)
Miscellaneous	500	8	(492)
<b>Total Revenues</b>	<u>7,781,500</u>	<u>8,241,299</u>	<u>459,799</u>
<b>Expenditures:</b>			
Current:			
Instruction:			
Regular	3,787,500	3,772,736	14,764
Special	651,100	643,424	7,676
Vocational	188,300	172,603	15,697
Other	30,600	30,530	70
Support Services:			
Pupils	448,900	441,846	7,054
Instructional Staff	300,900	280,780	20,120
Board of Education	41,500	36,531	4,969
Administration	800,100	789,348	10,752
Fiscal	230,300	227,831	2,469
Operation and Maintenance of Plant	966,600	946,683	19,917
Pupil Transportation	407,500	392,362	15,138
Central	9,800	6,900	2,900
Operation of Non-Instructional Services			
Extracurricular Activities	158,700	148,454	10,246
Capital Outlay			
<b>Total Expenditures</b>	<u>8,021,800</u>	<u>7,890,028</u>	<u>131,772</u>
Excess of Revenues Over (Under) Expenditures	<u>(240,300)</u>	<u>351,271</u>	<u>591,571</u>
<b>Other Financing Sources (Uses):</b>			
Proceeds from Sale of Fixed Assets	2,500	3,308	808
Advances In	5,000	5,000	0
Advances Out	(30,000)	(7,000)	23,000
<b>Total Other Financing Sources (Uses)</b>	<u>(22,500)</u>	<u>1,308</u>	<u>23,808</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(262,800)	352,579	615,379
Fund Balances at Beginning of Year	1,063,426	1,063,426	
Prior Year Encumbrances Appropriated	30,149	30,149	
<b>Fund Balances at End of Year</b>	<u><u>\$830,775</u></u>	<u><u>\$1,446,154</u></u>	<u><u>\$615,379</u></u>

See accompanying notes to the general purpose financial statements

**Martins Ferry City School District, Ohio**  
**Combined Statement of Revenues, Expenditures and Changes**  
**In Fund Balances - Budget and Actual (Budget Basis)**  
**All Governmental Fund Types**  
**For the Fiscal Year Ended June 30, 2003**  
**(Continued)**

<b>Special Revenue Funds</b>			
	<b>Revised Budget</b>	<b>Actual</b>	<b>Variance Favorable (Unfavorable)</b>
<b>Revenues:</b>			
Property and Other Taxes	\$	\$	\$
Intergovernmental	1,747,421	1,644,312	(103,109)
Interest			
Tuition and Fees			
Extracurricular Activities	118,900	109,594	(9,306)
Gifts and Donations	3,000	3,025	25
Customer Services			
Miscellaneous	100		(100)
	1,869,421	1,756,931	(112,490)
<b>Total Revenues</b>			
<b>Expenditures:</b>			
Current:			
Instruction:			
Regular	628,518	636,563	(8,045)
Special	585,872	493,181	92,691
Vocational	10,500	10,200	300
Other			
Support Services:			
Pupils	43,070	43,070	
Instructional Staff	330,124	313,835	16,289
Board of Education			
Administration	113,400	91,106	22,294
Fiscal	2,200	2,200	
Operation and Maintenance of Plant	3,000		3,000
Pupil Transportation	920	270	650
Central	36,000	34,221	1,779
Operation of Non-Instructional Services	201,630	157,454	44,176
Extracurricular Activities	112,800	111,148	1,652
Capital Outlay			
	2,068,034	1,893,248	174,786
<b>Total Expenditures</b>			
Excess of Revenues Over (Under) Expendit	(198,613)	(136,317)	62,296
<b>Other Financing Sources (Uses):</b>			
Proceeds from Sale of Fixed Assets			
Advances In	1,500	7,000	5,500
Advances Out		(5,000)	(5,000)
	1,500	2,000	500
<b>Total Other Financing Sources (Uses)</b>			
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(197,113)	(134,317)	62,796
Fund Balances at Beginning of Year	200,277	200,277	
Prior Year Encumbrances Appropriated	11,817	11,817	
	11,817	11,817	
<b>Fund Balances at End of Year</b>	<b>\$14,981</b>	<b>\$77,777</b>	<b>\$62,796</b>

See accompanying notes to the general purpose financial statements

(continued)

Capital Projects Fund			Totals (Memorandum Only)		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
\$177,000	\$168,299	(\$8,701)	\$2,857,000	\$2,741,601	(\$115,399)
8,000	19,677	11,677	6,801,421	7,279,556	478,135
			25,000	28,598	3,598
			20,000	19,680	(320)
			118,900	109,594	(9,306)
38,000	37,919	(81)	41,000	40,944	(56)
			10,000	4,144	(5,856)
			600	8	(592)
<u>223,000</u>	<u>225,895</u>	<u>2,895</u>	<u>9,873,921</u>	<u>10,224,125</u>	<u>350,204</u>
121,816	291,543	(169,727)	4,537,834	4,700,842	(163,008)
			1,236,972	1,136,605	100,367
			198,800	182,803	15,997
			30,600	30,530	70
			491,970	484,916	7,054
47,700	31,984	15,716	678,724	626,599	52,125
			41,500	36,531	4,969
45,180	37,323	7,857	958,680	917,777	40,903
13,020	12,070	950	245,520	242,101	3,419
18,500	13,758	4,742	988,100	960,441	27,659
			408,420	392,632	15,788
			45,800	41,121	4,679
			201,630	157,454	44,176
11,500	10,803	697	283,000	270,405	12,595
164,000	141,651	22,349	164,000	141,651	22,349
<u>421,716</u>	<u>539,132</u>	<u>(117,416)</u>	<u>10,511,550</u>	<u>10,322,408</u>	<u>189,142</u>
<u>(198,716)</u>	<u>(313,237)</u>	<u>(114,521)</u>	<u>(637,629)</u>	<u>(98,283)</u>	<u>539,346</u>
			2,500	3,308	808
			6,500	12,000	5,500
			(30,000)	(12,000)	18,000
<u>0</u>	<u>0</u>	<u>0</u>	<u>(21,000)</u>	<u>3,308</u>	<u>24,308</u>
(198,716)	(313,237)	(114,521)	(658,629)	(94,975)	563,654
356,276	356,276		1,619,979	1,619,979	
71,349	71,349		113,315	113,315	
<u>\$228,909</u>	<u>\$114,388</u>	<u>(\$114,521)</u>	<u>\$1,074,665</u>	<u>\$1,638,319</u>	<u>\$563,654</u>

**Martins Ferry City School District, Ohio**  
**Statement of Revenues,**  
**Expenses and Changes in Fund Equity**  
**Proprietary Fund Type**  
**For the Fiscal Year Ended June 30, 2003**

	<b>Enterprise</b>
<b><u>Operating Revenues:</u></b>	
Sales	\$156,065
Total Revenues	156,065
<b><u>Operating Expenses:</u></b>	
Salaries and Wages	152,204
Fringe Benefits	91,768
Purchased Services	2,971
Materials and Supplies	10,720
Cost of Sales	156,912
Other Operating Expenses	1,000
Depreciation	3,025
Total Operating Expenses	418,600
Operating Loss	(262,535)
<b><u>Non-Operating Revenues :</u></b>	
Federal Donated Commodities	40,503
Operating Grants	229,426
Total Non-Operating Revenues	269,929
Net Income	7,394
Retained Earnings (Deficit) at Beginning of Year	(4,002)
Retained Earnings at End of Year	3,392
Contributed Capital at Beginning and End of Year	79,748
<b>Total Fund Equity at End of Year</b>	<b>\$83,140</b>

See accompanying notes to the general purpose financial statements



**Martins Ferry City School District, Ohio**  
**Statement of Revenues, Expenses and Changes in**  
**Fund Equity - Budget and Actual (Budget Basis)**  
**Proprietary Fund Type**  
**For the Fiscal Year Ended June 30, 2003**

	<b>Enterprise Funds</b>		
	<b>Revised Budget</b>	<b>Actual</b>	<b>Variance Favorable (Unfavorable)</b>
<b>Revenues:</b>			
Sales	\$157,000	\$156,065	(\$935)
Operating Grants	173,000	229,426	56,426
<b>Total Revenues</b>	<b>330,000</b>	<b>385,491</b>	<b>55,491</b>
<b>Expenses:</b>			
Salaries and Wages	151,900	150,962	938
Fringe Benefits	100,600	86,743	13,857
Purchased Services	3,100	2,971	129
Materials and Supplies	150,700	126,939	23,761
Other	1,000	1,000	0
Capital Outlay	1,700	1,644	56
<b>Total Expenses</b>	<b>409,000</b>	<b>370,259</b>	<b>38,741</b>
Excess of Revenues Over (Under) Expenses	(79,000)	15,232	94,232
Fund Equity at Beginning of Year	79,743	79,743	0
<b>Fund Equity at End of Year</b>	<b>\$743</b>	<b>\$94,975</b>	<b>\$94,232</b>

See accompanying notes to the general purpose financial statements

**Martins Ferry City School District, Ohio  
Statement of Cash Flows  
Proprietary Fund Type  
For the Fiscal Year Ended June 30, 2003**

<b><u>Increase (Decrease) in Cash and Cash Equivalents:</u></b>	<b><u>Enterprise</u></b>
<b><u>Cash Flows from Operating Activities:</u></b>	
Cash Received from Sales	\$156,065
Cash Payments for Goods and Services	(129,160)
Cash Payments for Employee Services	(150,962)
Cash Payments for Employee Benefits	(86,743)
Other Cash Payments	(1,000)
	(211,800)
Net Cash Used by Operating Activities	(211,800)
<b><u>Cash Flows from Noncapital Financing Activities:</u></b>	
Operating Grants Received	229,426
	229,426
Net Cash Provided by Noncapital Financing Activities	229,426
<b><u>Cash Flows from Capital and Related Financing Activities:</u></b>	
Payments for Capital Acquisitions	(1,644)
	(1,644)
Net Cash Used for Capital and Related Financing Activities	(1,644)
Net Increase in Cash and Cash Equivalents	15,982
Cash and Cash Equivalents at Beginning of Year	79,744
	\$95,726
<b>Cash and Cash Equivalents at End of Year</b>	
<b><u>Reconciliation of Operating Loss to</u></b>	
<b><u>Net Cash Used by Operating Activities:</u></b>	
Operating Loss	(262,535)
	(\$262,535)
<b><u>Adjustments to Reconcile Operating Loss to</u></b>	
<b><u>Net Cash Used by Operating Activities:</u></b>	
Depreciation	3,025
Donated Commodities Used During Year	40,503
<b><u>Changes in Assets and Liabilities:</u></b>	
Increase in Inventory Held for Resale	(65)
Increase in Materials and Supply Inventory	(122)
Decrease in Prepaid Items	871
Increase in Accounts Payable	256
Decrease in Accrued Wages and Benefits	(298)
Increase in Compensated Absences Payable	1,540
Increase in Intergovernmental Payable	5,025
	5,025
Total Adjustments	50,735
<b>Net Cash Used by Operating Activities</b>	<b>(\$211,800)</b>

See accompanying notes to the general purpose financial statements

Martins Ferry City School District, Ohio  
Notes to the General Purpose Financial Statements  
For the Fiscal Year Ended June 30, 2003

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

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

The School District was established in 1853 through the consolidation of existing land areas and school districts. The School District serves an area of approximately 12 square miles. It is located in Belmont County and includes all of the City of Martins Ferry and portions of Pease and Colerain Townships. It is staffed by 68 classified employees, 102 certificated full-time teaching personnel and 6 administrative employees, who provide services to 1469 students and other community members. The School District currently operates 6 instructional/support facilities.

*Reporting Entity:*

The 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 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 organizations governing board and (1) the School District is able to significantly influence the programs of 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 three jointly governed organizations, one related organization, and two insurance purchasing pools. These organizations are the Belmont-Harrison Vocational School, the Ohio Mid-Eastern Regional Educational Service Agency (OME-RESA), the East Central Ohio Special Education Regional Resource Center (ECO-SERRC), the Martins Ferry Public Library, the Ohio School Boards Association Workers Compensation Group Rating Program and the Ohio School Plan which are presented in Notes 16, 17 and 18.

Martins Ferry City School District, Ohio  
Notes to the General Purpose Financial Statements  
For the Fiscal Year Ended June 30, 2003

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

The financial statements of the Martins Ferry City School District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its proprietary 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 - Fund Accounting**

The School District uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain School District functions or activities.

A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special restrictions or limitations. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities not recorded in the funds because they do not directly affect net available expendable resources.

For financial statement presentation purposes, the various funds of the School District are grouped into the following generic fund types under the broad fund categories governmental, proprietary, and fiduciary.

*Governmental Fund Types:*

Governmental funds are those through which most governmental functions of the School District are financed. The acquisition, use, and balances of the School District's expendable financial resources and the related current liabilities (except those accounted for in proprietary funds) are accounted for through governmental funds. The following are the School District's governmental fund types:

*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. The General Fund balance is available to the School District for any purpose provided it is expended or transferred according to the general laws of Ohio.

*Special Revenue Funds* - Special revenue funds are used to account for the proceeds of specific revenue sources (other than for major capital projects) that are legally restricted to expenditure for specified purposes.

*Capital Projects Funds* - The capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds or trust funds).

Martins Ferry City School District, Ohio  
Notes to the General Purpose Financial Statements  
For the Fiscal Year Ended June 30, 2003

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

**A. Basis of Presentation - Fund Accounting (Continued)**

*Proprietary Fund Type:*

The proprietary fund is used to account for the School District's ongoing activities which are similar to those found in the private sector. The following is the School District's proprietary fund type:

*Enterprise Fund* – The enterprise fund is used to account for School District activities that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

*Fiduciary Fund Types:*

Fiduciary fund types are used to account for assets held by the School District in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The School District's only fiduciary fund is an agency fund. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

*Account Groups:*

To make a clear distinction between fixed assets related to specific funds and those of general government, and between long-term liabilities related to specific funds and those of a general nature, the following account groups are used:

*General Fixed Assets Account Group* - This account group is established to account for all fixed assets of the School District, other than those accounted for in the proprietary fund.

*General Long-Term Obligations Account Group* - This account group is established to account for all long-term obligations of the School District except those accounted for in the proprietary fund.

**B. Measurement Focus and Basis of Accounting**

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The proprietary funds type is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. The proprietary fund type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

Martins Ferry City School District, Ohio  
Notes to the General Purpose Financial Statements  
For the Fiscal Year Ended June 30, 2003

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

**B. Measurement Focus and Basis of Accounting (Continued)**

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

The modified accrual basis of accounting is followed for the governmental and agency funds. The full accrual basis of accounting is followed for the proprietary funds.

*Revenue Recognition:*

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

Non-exchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which 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 fiscal 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 non-exchange transactions must also be available before it can be recognized.

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

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

Property taxes for which there is an enforceable legal claim as of June 30, 2003, but which were levied to finance fiscal year 2004 operations, have been recorded as deferred revenue. Grants and entitlements received before eligibility requirements are met are also recorded as deferred revenue. On a modified accrual basis, 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 the governmental funds.

Martins Ferry City School District, Ohio  
Notes to the General Purpose Financial Statements  
For the Fiscal Year Ended June 30, 2003

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

**C. Budgetary Process**

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified.

All funds, other than agency funds, are legally required to be budgeted and appropriated. The legal level of budgetary control is at the fund level. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

Advances in and advances out are not required to be budgeted since they represent a temporary cash flow and are intended to be repaid.

*Tax Budget:*

Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The express purpose of this budget document is to reflect the need for existing (or increased) tax rates.

By no later than January 20, the Board-adopted budget is filed with the Belmont County Budget Commission for rate determination.

*Estimated Resources:*

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

*Appropriations:*

Upon receipt from the County Auditor of an amended certificate of estimated resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution is enacted by the Board of Education at the fund level of expenditures for all funds, which is the legal level of budgetary control. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the School District. The appropriation resolution, by fund, must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals at any level of control.

Martins Ferry City School District, Ohio  
Notes to the General Purpose Financial Statements  
For the Fiscal Year Ended June 30, 2003

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

**C. Budgetary Process (Continued)**

*Appropriations: (Continued)*

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

The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts passed during the fiscal year, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds, other than agency funds, consistent with statutory provisions.

*Encumbrances:*

As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. Expenditures plus encumbrances may not legally exceed appropriations at the legal level of control. On the GAAP basis, encumbrances outstanding at fiscal year end are reported as a reservation of fund balance for subsequent-year expenditures for governmental funds and reported in the notes to the financial statements for proprietary funds.

*Lapsing of Appropriations:*

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

**D. Cash and Cash Equivalents**

To improve cash management, 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. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the balance sheet. During fiscal year 2003, investments were limited to nonnegotiable certificates of deposit and repurchase agreements which are reported at cost.

Following Ohio statutes, the Board of Education has, by resolution, specified the fund to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2003 amounted to \$32,234, which includes \$8,558 assigned from other School District funds.

For purposes of the combined statement of cash flows and for presentation on the combined balance sheet, 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 considered to be cash equivalents.



Martins Ferry City School District, Ohio  
Notes to the General Purpose Financial Statements  
For the Fiscal Year Ended June 30, 2003

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

**E. 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.

**F. Inventory**

Inventories of governmental funds are stated at cost while inventories of proprietary funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. Inventory in governmental funds consists of expendable supplies held for consumption.

The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased. Reported material and supplies inventory is equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available expendable resources even though it is a component of net current assets. Inventories of proprietary funds consist of donated food, purchased food, and school supplies held for resale and are expensed when used.

**G. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 2003, 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. Fixed Assets and Depreciation**

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction costs are reflected as expenditures in governmental funds, and the related assets are reported in the general fixed assets account group. Fixed assets utilized in the proprietary funds are capitalized in the fund. All fixed assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of one thousand dollars. The School District does not have any infrastructure.

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 capitalized. Improvements are capitalized. Improvements to fund fixed assets are depreciated over the remaining useful lives of the related fixed assets.

Assets in the general fixed assets account group are not depreciated. Depreciation of furniture and equipment in the enterprise funds is computed using the straight-line method over an estimated useful life of five to twenty years.

**I. Interfund Assets/Liabilities**

Short-term interfund loans are classified as "interfund receivables" and "interfund payables".

Martins Ferry City School District, Ohio  
Notes to the General Purpose Financial Statements  
For the Fiscal Year Ended June 30, 2003

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

**J. 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 School District 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 all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the School District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the School District's termination policy. The School District records a liability for accumulated unused sick leave for all employees after one year of current service with the School District.

For governmental funds, the current portion of unpaid compensated absences is the amount expected to be paid using available expendable resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the general long-term obligations account group. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

**K. Accrued Liabilities and Long-Term Obligations**

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, claims and judgments, compensated absences, special termination benefits, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the general long-term obligations account group to the extent that they will not be paid with current available expendable financial resources. Payments made more than sixty days after year-end are considered not to have been paid with current financial resources. Long-term bonds are recognized as a liability of the general long-term obligations account group until due or until resources have been accumulated in the fund for payment early the following year.

Long-term obligations financed by proprietary funds are reported as liabilities in the appropriate proprietary funds.

**L. Interfund Transactions**

Quasi-external transactions are accounted for as revenues and expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

Martins Ferry City School District, Ohio  
Notes to the General Purpose Financial Statements  
For the Fiscal Year Ended June 30, 2003

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

**M. Fund Balance Reserves**

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

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

**N. Contributed Capital**

Contributed capital is recorded in proprietary funds that have received contributions from other funds, other governments, and private sources paid prior to fiscal year 2001. When capital contributions are received, the receipt will be recorded as revenues and are reported as increases in retained earnings based on new guidelines established by GASB Statement 33, "Accounting and Reporting for Nonexchange Transactions".

**O. Total Columns on General Purpose Financial Statements**

Total columns on the general purpose financial statements are captioned "Total - (Memorandum Only)" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position or results of operations in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

**NOTE 3 – RESTATEMENT OF FUND BALANCE**

***Restatement of Fund Balances*** The fund classification was updated during fiscal year 2003 to reclassify the School Net Onenet Fund, previously reported as a capital projects fund, to be combined with the data communications special revenue fund. The adjustment to governmental funds is as follows:

Fund:	Special Revenue	Capital Projects
Fund Balance at June 30, 2002	\$116,201	\$439,979
School Net Onenet Reclassification	3,283	(3,283)
Restated Fund Balance at July 1, 2002	\$119,484	\$436,696

The effect of such changes noted above on the Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses previously reported and net income for the fiscal year ending June 30, 2002 is as follows:

Martins Ferry City School District, Ohio  
Notes to the General Purpose Financial Statements  
For the Fiscal Year Ended June 30, 2003

**NOTE 3 – RESTATEMENT OF FUND BALANCE (Continued)**

Fund:	<u>Special Revenue</u>	<u>Capital Projects</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses at June 30, 2002	(\$45,580)	\$352,219
Net Revenue Restatements	3,283	(3,283)
Restated Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses at June 30, 2002	<u>(\$42,297)</u>	<u>\$348,936</u>

**NOTE 4 – ACCOUNTABILITY AND COMPLIANCE**

**A. Accountability:**

At June 30, 2003, the following funds had deficit fund balances:

	<u>Deficit Fund Balance</u>
<b>Special Revenue Funds:</b>	
Athletic	\$6,528
Disadvantaged Pupil Impact Aid	\$37,408

The deficits in the special revenue funds were created by the application of generally accepted accounting principles.

The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

**B. Compliance:**

The Telecommunity Capital Projects Fund had expenditures plus encumbrances in excess of appropriations in the amount of \$130,497 for the fiscal year ended June 30, 2003, contrary to Ohio Rev. Code Section 5705.41(B). In the future, the School District will revise the appropriation resolution during the year as needed in an effort to eliminate expenditures plus encumbrances in excess of appropriations.

**NOTE 5 - BUDGETARY BASIS OF ACCOUNTING**

While the School District is reporting financial position, results of operations, and changes in fund balances/retained earnings 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 Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Budget Basis) All Governmental Fund Types and the Statement of Revenues, Expenses and Changes in Fund Equity - Budget and Actual (Budget Basis) Proprietary Fund Type are 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:

Martins Ferry City School District, Ohio  
Notes to the General Purpose Financial Statements  
For the Fiscal Year Ended June 30, 2003

**NOTE 5 - BUDGETARY BASIS OF ACCOUNTING (Continued)**

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures/expenses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures/expenses for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types and as note disclosure in the proprietary fund type (GAAP basis).
4. For proprietary funds, the acquisition and construction of capital assets are reported on the operating statement (budget basis) rather than as balance sheet transactions (GAAP basis).
5. Advances in and advances out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).

The following tables summarize the adjustments necessary to reconcile the GAAP and budgetary basis statements by fund type.

Excess of Revenues and Other Financing Sources  
Over (Under) Expenditures and Other Financing Uses  
All Government Fund Types

	General	Special Revenue	Capital Projects
GAAP Basis	\$343,053	(\$8,379)	(\$305,486)
Revenue			
Accruals	19,589	(83,828)	1,428
Expenditure			
Accruals	95,439	27,787	359
Prepaid Items	4,615	(456)	0
Material/Supply			
Inventory	(176)	0	0
Advances	(2,000)	2,000	0
Encumbrances	(107,941)	(71,441)	(9,538)
Budget Basis	\$352,579	(\$134,317)	(\$313,237)

Martins Ferry City School District, Ohio  
Notes to the General Purpose Financial Statements  
For the Fiscal Year Ended June 30, 2003

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**NOTE 5 - BUDGETARY BASIS OF ACCOUNTING (Continued)**

	Enterprise
Net Income/Excess of Revenues Over (Under) Expenses Proprietary Fund Type	
GAAP Basis	\$7,394
Revenue Accrual	(40,503)
Expense Accrual	46,750
Materials and Supplies Inventory	122
Inventory Held for Resale	65
Prepaid Items	(871)
Depreciation Expense	3,025
Encumbrances	(750)
Budget Basis	\$15,232

**NOTE 6 – DEPOSITS AND INVESTMENTS**

State statutes classify monies held by the School District into three categories.

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the 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 of Education has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim 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.

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

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

1. United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing

Martins Ferry City School District, Ohio  
Notes to the General Purpose Financial Statements  
For the Fiscal Year Ended June 30, 2003

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Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

**NOTE 6 – DEPOSITS AND INVESTMENTS (Continued)**

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. Time certificates of deposit or savings or deposit accounts, including, but not limited to, passbook accounts;
6. No-load money market funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAROhio);
8. Certain bankers acceptance and commercial paper notes for a period not to exceed one hundred and eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
9. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the School District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specific dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements."

*Deposits:* At fiscal year end, the carrying amount of the School District's deposits was \$1,187,999 and the bank balance was \$1,290,875. Of the bank balance \$190,875 was covered by federal depository insurance and \$1,100,000 was uncollateralized and uninsured. Although all statutory requirements for the deposit of the money had been followed, noncompliance with federal requirements could potentially subject the School District to a successful claim by the Federal Deposit Insurance Corporation.

*Investments:* The School District's investments are categorized below to give an indication of the level of risk assumed by the School District at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by the School District or its agent in the School District's name. Category 2 includes uninsured and unregistered investments which are held by the counter party's trust department or agent in the School District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the School District's name.

Martins Ferry City School District, Ohio  
Notes to the General Purpose Financial Statements  
For the Fiscal Year Ended June 30, 2003

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**NOTE 6 – DEPOSITS AND INVESTMENTS (Continued)**

	Category 3	<u>Carrying/Fair Amount</u>
Repurchase Agreement	<u>\$771,053</u>	<u>\$771,053</u>
Total	<u><u>\$771,053</u></u>	<u><u>\$771,053</u></u>

The classification of cash and cash equivalents, and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Government Entities That Use Proprietary Fund Accounting."

A reconciliation between the classifications of cash and cash equivalents and investments on the combined financial statements and the classification of deposits and investments presented above per GASB Statement No. 3 is as follows:

	<u>Cash and Cash Equivalents/Deposits</u>	<u>Investments</u>
GASB Statement 9	\$1,959,052	\$0
Investments:		
Repurchase Agreement	<u>(771,053)</u>	<u>771,053</u>
GASB Statement 3	<u><u>\$1,187,999</u></u>	<u><u>\$771,053</u></u>

**NOTE 7 - PROPERTY TAXES**

Property taxes are levied and assessed on a calendar year basis while the school district fiscal year runs from July through June. First half tax collections are received by the school district in the second half of the fiscal year. Second half tax distributions occur in the first half of the following fiscal year.

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the School District. Real property tax revenue received in calendar 2003 represents collections of calendar year 2002 taxes. Real property taxes received in calendar year 2003 were levied after April 1, 2002, on the assessed value listed as of January 1, 2002, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2003 represents collections of calendar year 2002 taxes. Public utility real and tangible personal property taxes received in calendar year 2003 became a lien December 31, 2001, were levied after April 1, 2002 and are collected in 2003 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.



Martins Ferry City School District, Ohio  
Notes to the General Purpose Financial Statements  
For the Fiscal Year Ended June 30, 2003

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**NOTE 7 - PROPERTY TAXES (Continued)**

Tangible personal property tax revenue received during calendar 2003 (other than public utility property) represents the collection of 2003 taxes. Tangible personal property taxes received in calendar year 2003 were levied after April 1, 2002, on the value as of December 31, 2002. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the 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, 2003, are available to finance fiscal year 2003 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2003 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2003 was \$120,908 in the general fund and \$8,574 in the permanent improvement capital projects fund and is recognized as revenue. The amount available as an advance at June 30, 2002, was \$137,851 in the general fund and \$10,002 in the permanent improvement capital projects fund.

On a modified accrual basis, collectible delinquent property taxes have been recorded as a receivable and deferred revenue.

The assessed values upon which the fiscal year 2003 taxes were collected are:

	2002 Second Half Collections		2003 First Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$85,354,120	73.99 %	\$85,480,160	75.51 %
Public Utility Personal	23,600,330	20.45	21,256,030	18.78
Tangible Personal Property	6,412,230	5.56	6,468,660	5.71
Total	<u>\$115,366,680</u>	<u>100.00 %</u>	<u>\$113,204,850</u>	<u>100.00 %</u>
Tax rate per \$1,000 of assessed valuation	\$37.50		\$37.50	

Martins Ferry City School District, Ohio  
Notes to the General Purpose Financial Statements  
For the Fiscal Year Ended June 30, 2003

**NOTE 8 - RECEIVABLES**

Receivables at June 30, 2003, consisted of property taxes, interest, accounts, and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. A summary of the principal items of intergovernmental receivables follows:

<u>Intergovernmental Receivables</u>	<u>Amounts</u>
General Fund	\$6,758
Special Revenue Funds:	
Special Education, Part-B IDEA	58,698
Targeted Assistance - Title I	152,191
Innovative Programs - Title V	7,480
Safe and Drug Free School - Title IV-A	256
Improving Teacher Quality - Title II-A	65,925
Quality Change	2,253
Technology - Title II-D	5,293
Total Special Revenue Funds	<u>292,096</u>
Total Intergovernmental Receivables	<u><u>\$298,854</u></u>

**NOTE 9 - FIXED ASSETS**

A summary of the enterprise fund's fixed assets at June 30, 2003, follows:

	<u>Amount</u>
Furniture and Equipment	\$130,838
Less Accumulated Depreciation	(115,912)
Net Fixed Assets	<u><u>\$14,926</u></u>

A summary of the changes in general fixed assets during fiscal year 2003 follows:

<u>Asset Category</u>	<u>Balance at</u> <u>6/30/02</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at</u> <u>6/30/03</u>
Land and Improvements	\$280,091	\$0	\$0	\$280,091
Buildings and Improvements	2,645,946	63,285	0	2,709,231
Furniture, Fixtures and Equipment	2,310,144	251,062	0	2,561,206
Vehicles	714,378	54,678	44,066	724,990
Totals	<u><u>\$5,950,559</u></u>	<u><u>\$369,025</u></u>	<u><u>\$44,066</u></u>	<u><u>\$6,275,518</u></u>

Martins Ferry City School District, Ohio  
Notes to the General Purpose Financial Statements  
For the Fiscal Year Ended June 30, 2003

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**NOTE 10- RISK MANAGEMENT**

The School District is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2003, the School District contracted with Harcum-Hyre Insurance Company, Westfield Insurance Company and Cincinnati Insurance for property and fleet insurance and inland marine coverage. Coverage's provided are as follows:

Building and Contents-replacement cost (\$500 deductible)	\$26,834,647
Boiler and Machinery - (\$500 deductible)	100,000
Flood Insurance - Building and Contents (\$5,000 deductible)	149,800
Automobile Liability	1,000,000
Uninsured Motorists	1,000,000

During fiscal year 2002, the School District joined together with other school districts in Ohio to participate in the Ohio School Plan (OSP), a public entity insurance purchasing pool. Each individual school district enters into an agreement with the OSP and its premium is based on types of coverage, limits of coverage, and deductibles that it selects. The School District pays this annual premium to the OSP. (See Note 18)

The types and amounts of coverage provided by the Ohio School Plan are as follows:

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

Settled claims have not exceeded this commercial coverage in any of the past three years. There have been no significant reductions in insurance coverage from last year. The School District pays the State a rate per \$100 of salaries for workers' compensation.

Martins Ferry City School District, Ohio  
Notes to the General Purpose Financial Statements  
For the Fiscal Year Ended June 30, 2003

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**NOTE 10- RISK MANAGEMENT (Continued)**

For fiscal year 2003, the School District participated in the Ohio School Boards Association Workers Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 18). 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 districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers compensation premium to the State based on the rate for GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the Equity Pooling Fund. This equity pooling arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

**NOTE 11 - DEFINED BENEFIT PENSION PLANS**

***A. School Employees Retirement System***

The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476.

Plan members are required to contribute 9 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2002, 5.46 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2003, 2002 and 2001 were \$126,042, \$71,338 and \$37,803 respectively; 55.16 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001.

***B. State Teachers Retirement System***

The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 or by calling (614) 227-4090.

Martins Ferry City School District, Ohio  
Notes to the General Purpose Financial Statements  
For the Fiscal Year Ended June 30, 2003

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**NOTE 11 - DEFINED BENEFIT PENSION PLANS (Continued)**

***B. State Teachers Retirement System (Continued)***

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2003, plan members were required to contribute 9.3 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2002, the portion used to fund pension obligations was 9.5 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2003, 2002, and 2001 were \$610,463, \$ 393,009, and \$451,150 respectively; 80 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001. Contributions to the DC and Combined Plans for fiscal year 2003 were \$7,301 made by the School District and \$6,567 made by the plan members.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System.

As of June 30, 2003, one member of the Board of Education has elected Social Security. The Board's liability is 6.2 percent of wages paid.

Martins Ferry City School District, Ohio  
Notes to the General Purpose Financial Statements  
For the Fiscal Year Ended June 30, 2003

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**NOTE 12 - POSTEMPLOYMENT BENEFITS**

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

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care cost will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2003, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$46,959 for fiscal year 2003.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2002, (the latest information available) the balance in the Fund was \$3.011 billion. For the year ended June 30, 2002, net health care costs paid by STRS were \$354,697,000 and STRS had 105,300 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent the premium.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2003, employer contributions to fund health care benefits were 5.83 percent of covered payroll, a decrease of 2.71 percent from fiscal year 2002. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2003, the minimum pay has been established at \$14,500. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2003 fiscal year equaled \$112,952.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2002, (the latest information available), were \$182,946,777 and the target level was \$274.4 million. At June 30, 2002, SERS had net assets available for payment of health care benefits of \$335.2 million. SERS has approximately 50,000 participants receiving health care benefits.

**NOTE 13 - OTHER EMPLOYEE BENEFITS**

**A. Compensated Absences**

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees earn five to twenty days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time.

Martins Ferry City School District, Ohio  
Notes to the General Purpose Financial Statements  
For the Fiscal Year Ended June 30, 2003

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**NOTE 13 - OTHER EMPLOYEE BENEFITS (Continued)**

**A. Compensated Absences (Continued)**

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 229 days for classified employees and 232 days for certified employees. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of 46 days for classified and certified employees.

**B. Insurance Benefits**

The School District provides life insurance and accidental death and dismemberment insurance to most employees through CoreSource. The School District has elected to provide employee medical/surgical benefits through the Health Plan of the Upper Ohio Valley and Health Insurance. The employees share the cost of the premium with the Board. The premium varies with the employees depending on the terms of the union contract. Dental insurance is provided by the School District to most employees through CoreSource. Vision insurance is provided by Vision Service Plan.

**C. Special Termination Benefits**

It is agreed by and between the Martins Ferry City School District Board of Education and the Martins Ferry Education Association that 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 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. During FY 2003, the School District paid \$17,350 in Early Retirement Incentives. The remaining balance of \$4,330 will be paid during fiscal year 2004.

**NOTE 14 - LONG - TERM OBLIGATIONS**

Changes in the School District's long-term obligations during fiscal year 2003 were as follows:

	<u>6/30/02</u>	<u>Additions</u>	<u>Deductions</u>	<u>6/30/03</u>
Pension Obligation	\$62,843	\$70,755	\$62,843	\$70,755
Compensated Absences	852,212	190,070	109,786	932,496
Early Retirement Incentive	21,680	0	17,350	4,330
Total General Long-Term Obligations	<u>\$936,735</u>	<u>\$260,825</u>	<u>\$189,979</u>	<u>\$1,007,581</u>

Compensated absences and long-term pension obligations, which represent contractually required pension contributions, will be paid from the fund which the employee's salaries are paid.

Martins Ferry City School District, Ohio  
Notes to the General Purpose Financial Statements  
For the Fiscal Year Ended June 30, 2003

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**NOTE 15 - INTERFUND ACTIVITY**

As of June 30, 2003 receivables and payables that resulted from various interfund transactions were as follows:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$7,000	\$0
Special Revenue Funds:		
Athletic Fund	0	7,000
Total Special Revenue Funds	0	7,000
Total All Funds	\$7,000	\$7,000

**NOTE 16 – JOINTLY GOVERNED ORGANIZATIONS**

**A. Belmont-Harrison Vocational School**

*The Belmont-Harrison Vocational School is a district political subdivision of the State of Ohio operated under the direction of a Board consisting of one representative from each of the participating school district's elected boards, which possesses its own budgetary and taxing authority. To obtain financial information write to the Belmont-Harrison Vocational School, Alexis Petrilla, Treasurer, at Fox Shannon Road, St. Clairsville, Ohio 43950.*

**B. Ohio Mid-Eastern Regional Educational Service Agency (OME-RESA)**

*The Ohio Mid-Eastern Regional Educational Service Agency (OME-RESA) was created as a regional council of governments pursuant to State statutes. OME-RESA is a computer consortium formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. OME-RESA has 12 participating counties consisting of Belmont, Carroll, Columbiana, Coshocton, Guernsey, Harrison, Holmes, Jefferson, Monroe, Muskingum, Noble, and Tuscarawas Counties. OME-RESA is governed by a governing board which is selected by the member districts. OME-RESA possesses its own budgeting and taxing authority. In fiscal year 2003 the School District contributed \$25,961 to the Agency. To obtain financial information write to the Ohio Mid-Eastern Regional Educational Service Agency, Debra Angelo, Treasurer, at 2023 Sunset Blvd., Steubenville, Ohio 43952.*

**C. East Central Ohio Special Education Regional Resource Center (ECO-SERRC)**

*The East Central Ohio Special Education Regional Resource Center (ECO-SERRC) is a special education service center which selects its own board, adopts its own budget and receives direct Federal and State grants for its operation. The jointly-governed organization was formed for the purpose of initiating, expanding and improving special education programs and services for children with disabilities and their parents.*



Martins Ferry City School District, Ohio  
Notes to the General Purpose Financial Statements  
For the Fiscal Year Ended June 30, 2003

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**NOTE 16 – JOINTLY GOVERNED ORGANIZATIONS (Continued)**

**C. East Central Ohio Special Education Regional Resource Center (ECO-SERRC) (Continued)**

The ECO-SERRC is governed by a board composed of superintendents of member school districts in East Central Ohio, parents of children with disabilities, representatives of chartered non-public schools, representatives of county boards of MR/DD and representatives of universities. The degree of control exercised by any participating school district is limited to its representation on the Board. There is no financial commitment made by the districts involved in ECO-SERRC. ECO SERRC is not financially dependent upon the continued participation of the School District and the School District does not maintain an equity interest in or financial responsibility for ECO-SERRC. Financial information can be obtained by contacting Julie A. Lynch, Treasurer at the Tuscarawas-Carroll-Harrison Educational Service Center, 172 North Broadway, New Philadelphia, Ohio 44663.

**NOTE 17 – RELATED ORGANIZATION**

*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 18 – INSURANCE PURCHASING POOL**

**A. Ohio School Boards Association Worker's Compensation Group Rating Plan**

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

**B. Ohio School Plan**

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

Martins Ferry City School District, Ohio  
Notes to the General Purpose Financial Statements  
For the Fiscal Year Ended June 30, 2003

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

**NOTE 19 – STATE SCHOOL FUNDING DECISION**

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State’s school funding plan. The decision reaffirmed earlier decisions that Ohio’s current school-funding decision is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed “...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient...”

The School District is currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

**NOTE 20 - 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. Effective April 10, 2001, through Amended Substitute Senate Bill 345, the requirement for school districts to establish and appropriate money for the budget stabilization was deleted from law. A school district may still establish reserve balance accounts consistent with Section 5705.13, Revised Code, if it so chooses; however, the requirement is no longer mandatory. In addition, any money on hand in a school district’s budget reserve set-aside as of April 10, 2001, may at the discretion of the board be returned to the district’s general fund or may be left in the account and used by the board to offset any budget deficit the district may experience in future years. The bill placed special conditions on any Bureau of Workers Compensation monies remaining in the budget reserve set-aside.

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

	<u>Textbooks</u>	<u>Capital Improvements</u>	<u>Budget Stabilization</u>
Set-aside Reserve Balance as of June 30, 2002	\$0	\$0	\$990
Carry over of Prior Year Qualifying Disbursements	(67,142)	0	0
Current Year Set-aside Requirement	201,155	201,155	0
Current Year Offsets	0	(168,299)	
Qualifying Disbursements	<u>(135,335)</u>	<u>(78,843)</u>	<u>(990)</u>
Totals	<u>(\$1,322)</u>	<u>(\$45,987)</u>	<u>\$0</u>
Set-aside Balance Carried Forward to Future Fiscal Years	<u>(\$1,322)</u>	<u>\$0</u>	<u>\$0</u>
Set-aside Reserve Balance as of June 30, 2003	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

Martins Ferry City School District, Ohio  
Notes to the General Purpose Financial Statements  
For the Fiscal Year Ended June 30, 2003

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**NOTE 20 - SET-ASIDE CALCULATIONS AND FUND RESERVES (Continued)**

The School District had qualifying disbursements during the fiscal year that reduced the textbook set-aside amount below zero. This extra amount may be used to reduce the set-aside requirement of future years. Although the School District had current year offsets and qualifying disbursements during the fiscal year that reduced the set-aside amount to below zero for the capital acquisition set-aside, this amount may not be used to reduce the set-aside requirement of future years. This negative balance is therefore not presented as being carried forward to future years. The total reserve balance for the three set-asides at the end of the fiscal year was zero.

**NOTE 21 - 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 is 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, 2003.

**B. Litigation**

The School District is not party to any legal proceedings.

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MARTINS FERRY CITY SCHOOL DISTRICT  
BELMONT COUNTY

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

FEDERAL GRANTOR Pass-Through Grantor Program Title	Federal CFDA Number	Pass-through Entity Number	Receipts	Noncash Receipts	Expenditures	Noncash Expenditures
<b><u>UNITED STATES DEPARTMENT OF AGRICULTURE</u></b>						
<i>Passed-Through State Department of Education:</i>						
Nutrition Cluster:						
Food Distribution Program	10.550	NA	\$0	\$40,503	\$0	\$40,503
School Breakfast Program	10.553	044347-05-PU-02	7,177		7,177	
		044347-05-PU-03	44,336		44,336	
Total School Breakfast Program			51,513	0	51,513	0
National School Lunch Program	10.555	044347-LL-P4-02	21,832		21,832	
	10.555	044347-LL-P4-03	141,311		141,311	
Total National School Lunch Program			163,143	0	163,143	0
Total Nutrition Cluster			214,656	40,503	214,656	40,503
<i>Direct Program:</i>						
Rural Utilities Service's Distance Learning and Telemedicine Loan and Grant Program	10.855	N/A	61,876		61,876	
Total United State Department of Agriculture			276,532	40,503	276,532	40,503
<b><u>UNITED STATES DEPARTMENT OF EDUCATION</u></b>						
<i>Passed-Through State Department of Education:</i>						
Targeted Assistance, Title I	84.010	044347-C1-S1-02	18,934		62,492	
	84.010	044347-C1-S1-02C			20,281	
	84.010	044347-C1-S1-03	405,041		364,221	
Total Targeted Assistance, Title I			423,975	0	446,994	0
Special Education, Part B-IDEA	84.027	044347-6B-SF-02			14,093	
	84.027	044347-6B-SF-03	124,925		119,210	
Total Special Education, Part B-IDEA			124,925	0	133,303	0
Safe and Drug-Free Schools (SDRSC), Title IV-A	84.186	044347-DR-S1-03	12,547		12,293	
Eisenhower Professional Development State Grants	84.281	044347-MS-S1-02	(684)			
Innovative Programs, Title V	84.298	044347-C2-S1-01			2,574	
	84.298	044347-C2-S1-02	(1,348)		5,857	
	84.298	044347-C2-S1-03	9,208		8,437	
Total Innovative Programs, Title V			7,860	0	16,868	0
Technology, Title II-D	84.318	044347-TJ-S1-03	7,310		7,310	
Title VI of the ESEA, Class Size Reduction Grant	84.340	044347-CR-S1-02	7,108		19,352	
School Renovation, IDEA and Technology (Assistive Technology Infusion Project)	84.352A	044347-AT-S2-02	6,483		6,483	
Improving Teacher Quality, Title II-A	84.367	044347-TR-S1-03	78,145		76,035	
<i>Direct Program:</i>						
Fund for the Improvement of Education	84.215K	R215K010213-2002	8,565		8,568	
	84.215K	R215K010213-2003	37,747		37,747	
Total Fund for the Improvement of Education			46,312	0	46,315	0
Total United States Department of Education			713,981	0	764,953	0
<b><u>UNITED STATES DEPARTMENT OF JOB AND FAMILY SERVICES</u></b>						
<i>Passed-Through Ohio Department of Mental Retardation and Developmental Disabilities:</i>						
Medical Assistance Program - Community Alternative Funding System - Title XIX	93.778	N/A	74,720		74,720	
<b>Total Federal Awards Receipts and Expenditures</b>			<b>\$1,065,233</b>	<b>\$40,503</b>	<b>\$1,116,205</b>	<b>\$40,503</b>

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

**MARTINS FERRY CITY SCHOOL DISTRICT  
BELMONT COUNTY**

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

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B - CHILD NUTRITION CLUSTER**

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

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

**NOTE C - REFUNDS**

During fiscal year 2003, the School District refunded \$132 to the Ohio Department of Education (ODE) after the expiration of the period of availability of the Assistive Technology Grant, Code of Federal Domestic Assistance (CFDA) #84.352A.

**NOTE D - TRANSFERS**

Recent federal legislation created new federal grants for school districts and renamed and revised some of the existing grants. The Eisenhower Professional Development State Grants (Math and Science) CFDA #84.281 and Title VI of the ESEA, Class Size Reduction Grant CFDA #84.340 are now reflected as Improving Teacher Quality, Title II-A CFDA #84.367. Transfers due to the change of CFDA Numbers are as follows:

<u>CFDA Number</u>	<u>Transfers-In</u>	<u>Transfers-Out</u>
84.281	\$0	\$684
84.340	0	292
84.367	<u>976</u>	<u>0</u>
Total	<u>\$976</u>	<u>\$976</u>

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

<u>CFDA Number</u>	<u>Pass-through Entity Number</u>	<u>Transfers-In</u>	<u>Transfers-Out</u>
84.010	044347-C1-S1-02	\$0	\$27,066
84.010	044347-C1-S1-03	<u>27,066</u>	<u>0</u>
Total		<u>\$27,066</u>	<u>\$27,066</u>



## **Auditor of State Betty Montgomery**

### **INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY GOVERNMENT AUDITING STANDARDS**

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

To the Board of Education:

We have audited the financial statements of the Martins Ferry City School District, Belmont County, Ohio (the School District), as of and for the year ended June 30, 2003, and have issued our report thereon dated November 7, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### **Compliance**

As part of obtaining reasonable assurance about whether the School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying Schedule of Findings as item 2003-001. We also noted a certain immaterial instance of noncompliance that we have reported to the management of the School District in a separate letter dated November 7, 2003.

#### **Internal Control Over Financial Reporting**

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

Martins Ferry City School District  
Belmont County  
Independent Accountants' Report on Compliance and on  
Internal Control Required by *Government Auditing Standards*  
Page 2

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

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

**Betty Montgomery**  
Auditor of State

November 7, 2003





**Auditor of State  
Betty Montgomery**

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

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

To the Board of Education:

**Compliance**

We have audited the compliance of the Martins Ferry City School District, Belmont County, Ohio (the School District), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2003. The School District's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of the School District's management. Our responsibility is to express an opinion on the School District's compliance based on our audit.

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

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

**Internal Control over Compliance**

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

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Martins Ferry City School District  
Belmont County  
Independent Accountants' Report on Compliance with Requirements Applicable  
to Major Federal Programs and Internal Control Over Compliance in  
Accordance with OMB Circular A-133  
Page 2

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

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

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

**Betty Montgomery**  
Auditor of State

November 7, 2003

**MARTINS FERRY CITY SCHOOL DISTRICT  
BELMONT COUNTY**

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

**1. SUMMARY OF AUDITOR'S RESULTS**

<b>(d)(1)(i)</b>	<b>Type of Financial Statement Opinion</b>	Unqualified
<b>(d)(1)(ii)</b>	<b>Were there any material control weakness conditions reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(ii)</b>	<b>Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(iii)</b>	<b>Was there any reported material non-compliance at the financial statement level (GAGAS)?</b>	Yes
<b>(d)(1)(iv)</b>	<b>Were there any material internal control weakness conditions reported for major federal programs?</b>	No
<b>(d)(1)(iv)</b>	<b>Were there any other reportable internal control weakness conditions reported for major federal programs?</b>	No
<b>(d)(1)(v)</b>	<b>Type of Major Programs' Compliance Opinion</b>	Unqualified
<b>(d)(1)(vi)</b>	<b>Are there any reportable findings under Section .510?</b>	No
<b>(d)(1)(vii)</b>	<b>Major Programs (list):</b>	Targeted Assistance, Title I, CFDA #84.010 Special Education Part B-IDEA, CFDA #84.027
<b>(d)(1)(viii)</b>	<b>Dollar Threshold: Type A\B Programs</b>	Type A: > \$ 300,000 Type B: all others
<b>(d)(1)(ix)</b>	<b>Low Risk Auditee?</b>	Yes

MARTINS FERRY CITY SCHOOL DISTRICT  
BELMONT COUNTY

SCHEDULE OF FINDINGS  
OMB CIRCULAR A-133 SECTION .505  
JUNE 30, 2003  
(Continued)

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

**FINDING NUMBER 2003-001**

**Noncompliance Citation**

Ohio Rev. Code Section 5705.41(B) requires no subdivision or taxing unit to expend money unless it has been appropriated.

At June 30, 2003, the following fund had expenditures which exceeded appropriations as follows:

<u>Fund</u>	<u>Appropriations</u>	<u>Expenditures</u>	<u>Excess</u>
Telecommunity Fund	\$184,000	\$314,497	(\$130,497)

The Treasurer should not certify the availability of funds and should deny payment requests exceeding appropriations. The Treasurer may request the Board to approve increased expenditure levels by increasing appropriations and amending estimated resources, if necessary.

**3. FINDINGS FOR FEDERAL AWARDS**

None.

**MARTINS FERRY CITY SCHOOL DISTRICT  
BELMONT COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDING  
OMB CIRCULAR A-133 SECTION .315(b)  
JUNE 30, 2003**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding <u>No Longer Valid</u> ; <b><i>Explain:</i></b>
2002-11007-001	Ohio Rev. Code Section 5705.10 states money paid into one fund may only be used for the purposes for which such fund was established.	Yes	Fully Corrected.

**MARTINS FERRY CITY SCHOOL DISTRICT  
BELMONT COUNTY**

**CORRECTIVE ACTION PLAN  
OMB CIRCULAR A-133 SECTION .315(C)  
JUNE 30, 2003**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2003-001	The School District Treasurer plans to monitor expenditures to ensure they do not exceed appropriations.	June 30, 2004	Albert Skulich, Treasurer



**Auditor of State  
Betty Montgomery**

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**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  
DECEMBER 30, 2003**