



**Auditor of State
Betty Montgomery**

**MARIETTA CITY SCHOOL DISTRICT
WASHINGTON COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Marietta City School District
Washington County
701 Third Street
Marietta, Ohio 45750

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Marietta City School District, Washington County, Ohio (the School District), as of and for the year ended June 30, 2004, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

Ohio Administrative Code Section 117-2-03(B) requires the School District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, as discussed in Note 2, the School District prepares and files its financial statements on the cash basis of accounting, a comprehensive basis of accounting other than generally accepted accounting principles. The accompanying financial statements omit assets, liabilities, net assets, and disclosures that, while material, cannot be determined at this time. As of and for the year ended June 30, 2003, the District prepared its annual financial report in accordance with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position—cash basis of the governmental activities, each major fund, and the aggregate remaining fund information of the Marietta City School District, Washington County, as of June 30, 2004, and the respective changes in financial position—cash basis thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with the basis of accounting described in Note 2.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 2, 2004, 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.

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Management's Discussion and Analysis on pages 3 through 11 is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

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

Betty Montgomery
Auditor of State

November 2, 2004

Marietta City School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

The discussion and analysis of the Marietta City School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for the fiscal year 2004 are as follows:

- Net assets of governmental activities increased \$210,124.
- General receipts accounted for \$21,151,577 in receipts or 82% of all receipts. Program specific cash receipts in the form of charges for services, grants, contributions, and interest accounted for \$4,673,669 or 18% of total receipts of \$25,825,246.
- The School District had \$25,615,122 in disbursements related to governmental activities; only \$4,673,669 of these disbursements were offset by program specific charges for services, grants, contributions, and interest. General revenues of \$21,151,577 were adequate to provide for these programs by \$210,124.
- The School District's major funds were the General Fund and the Bond Retirement Fund. The General Fund had \$20,680,242 in receipts and \$21,074,227 in disbursements. The General Fund's balance decreased \$260,133. The Bond Retirement Fund had \$963,088 in receipts and \$1,066,432 in disbursements. The Bond Retirement Fund's balance decreased \$103,344.

Using this Annual Financial Report

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

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

Marietta City School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

Reporting the School District as a Whole

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

While this document contains information about the large number of funds used by the School District to provide programs and activities for students, the view of the School District as a whole looks at all financial transactions and asks the question, “How did we do financially during fiscal year 2004?” The Statement of Net Assets – Cash Basis and the Statement of Activities – Cash Basis answer this question. These two statements report the School District’s net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the School District as a whole, the financial position of the School District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the School District’s property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs, and other factors.

In the Statement of Net Assets – Cash Basis and the Statement of Activities – Cash Basis, all of the School District’s programs and services are reported as governmental activities including food service operations, instruction, support services, operation of non-instructional services, bond service operations, and extracurricular activities.

Reporting the School District’s Most Significant Funds

Fund Financial Statements

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

Governmental Funds Most of the School District’s activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at fiscal year end available for spending in future periods. These funds are reported on a modified cash basis. The governmental fund statements provide a detailed short-term view of the School District’s general governmental operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs.

The School District as a Whole

Recall that the Statement of Net Assets – Cash Basis provides the perspective of the School District as a whole. Table 1 provides a summary of the School District’s net assets for 2004 compared to 2003.

Marietta City School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
 Unaudited

Table 1
 Net Assets - Cash Basis

	Governmental Activities	
	2004	2003
Assets		
Equity in Pooled Cash and Cash Equivalents	\$3,583,704	\$3,373,280
Net Assets		
Restricted	1,978,707	2,272,239
Unrestricted	1,604,997	1,101,341
Total Net Assets	\$3,583,704	\$3,373,580

Since the entity-wide statement of net assets includes the balance of the self-insurance internal service fund, the above table reflects an increase in net assets of \$210,124. The self-insurance fund cash balance increased by \$518,768 during fiscal year 2004 due to an increase in the contribution by the Board of Education and employees in order to meet the reserve requirements.

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2004. Since this is the first year Marietta City School District has prepared financial statements following GASB Statement 34 under the cash method, receipt and disbursement comparisons to fiscal year 2003 are not available. In future years, when prior year information is available, a comparative analysis of government-wide data will be presented.

Marietta City School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
 Unaudited

Table 2
 Changes in Net Assets

	Governmental Activities
	2004
Receipts	
Program Cash Receipts	
Charges for Services	\$1,285,285
Operating Grants, Contributions and Interest	3,367,963
Capital Grants and Contributions	20,421
Total Program Cash Receipts	4,673,669
General Receipts	
Property Taxes	11,123,503
Grants and Entitlements	8,617,828
Investment Earnings	63,310
Receipts from Sale of Capital Assets	397,557
Bonds Issued	821,529
Miscellaneous	127,850
Total General Receipts	21,151,577
Total Receipts	25,825,246
Program Disbursements	
Instruction:	
Regular	10,733,795
Special	2,855,005
Vocational	112,922
Adult/Continuing	82,270
Support Services:	
Pupil	1,112,047
Instructional Staff	1,510,226
Board of Education	85,240
Administration	1,872,155
Fiscal	471,760
Business	246,592
Operation and Maintenance of Plant	2,159,016
Pupil Transportation	1,160,301
Central	69,590
Operation of Non-Instructional Services:	
Food Service Operations	643,655
Other	197,700
Extracurricular Activities	493,987
Capital Outlay	739,377
Principal Retirement	960,000
Interest and Fiscal Charges	109,484
Total Disbursements	25,615,122
Increase in Net Assets	\$210,124

Marietta City School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

During fiscal year 2004, the School District closed North Hills and Reno elementary schools and reduced 23 staff positions for a \$1,000,000 cost savings. Although these reductions were made, the program offering remained similar as compared to the previous year. In addition, the School District sold the unused Oak Grove and Fairview elementary schools for \$375,000.

The DeRolph III decision has not eliminated the dependence on property taxes. The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. Inflation alone will not increase the amount of funds generated by a tax levy. Basically, the mills collected decreases as the property valuation increases thus generating about the same revenue. Property taxes made up approximately 42% of revenues for governmental activities for the Marietta City School District in fiscal year 2004. The Board of Education placed a 7.5 mill operating levy on the ballot March 2, 2004, but was defeated by a 2 to 1 margin.

The Statement of Activities shows the cost of program services and the charges for services, grants, contributions, and interest earnings offsetting those services. Table 3 shows the total cost of services and the net cost of services. That is, it identifies the cost of those services supported by tax revenue and unrestricted state entitlements. Comparisons to 2003 have not been made since they are not available.

Marietta City School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
 Unaudited

Table 3
 Governmental Activities

	Total Cost of Services	Net Cost of Services
	2004	2004
Program Disbursements		
Instruction:		
Regular	\$10,733,795	\$9,692,902
Special	2,855,005	1,076,931
Vocational	112,922	85,501
Adult/Continuing	82,270	3,859
Support Services:		
Pupil	1,112,047	1,046,253
Instructional Staff	1,510,226	1,074,979
Board of Education	85,240	85,240
Administration	1,872,155	1,728,819
Fiscal	471,760	466,233
Business	246,592	246,592
Operation and Maintenance of Plant	2,159,016	2,149,253
Pupil Transportation	1,160,301	1,013,632
Central	69,590	40,180
Operation of Non-Instructional Services		
Food Service	643,655	(1,914)
Other	197,700	50,044
Extracurricular Activities	493,987	374,088
Capital Outlay	739,377	739,377
Principal Retirement	960,000	960,000
Interest and Fiscal Charges	109,484	109,484
Total	<u>\$25,615,122</u>	<u>\$20,941,453</u>

The dependence upon tax revenues and state subsidies for governmental activities is apparent. For fiscal year 2004, approximately 65% of instruction activities were supported through taxes and other general revenues.

Marietta City School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
 Unaudited

The School District Funds

The School District's major funds are accounted for using the cash basis of accounting. All governmental funds had total receipts of \$24,606,160 and disbursements of \$26,133,890. The General Fund had a decrease in fund balance of \$260,133 due to a combination of factors. Even though there was a reduction of expenditures, revenues also decreased due to State reductions. The Bond Retirement Fund also had a decrease in fund balance of \$103,344 because the tax rate has been reduced from 2.4 mills to 2.2 mills. This rate will remain the same until the refunding bonds are retired in fiscal year 2008.

General Fund Budgeting Highlights

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

During the course of 2004, the School District amended its General Fund budget. The School District uses a modified site-based budgeting technique which is designed to tightly control total site budgets but provide flexibility for site management.

For the General Fund, budget basis receipts were \$20,680,242, below original estimates of \$20,793,892. The \$113,650 difference was mainly due to tangible tax revenues being less than originally estimated.

The School District's ending unobligated General Fund balance was \$603,117.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2004, the School District had \$18,971,265 in land, buildings, furniture and equipment, and vehicles. Table 4 shows fiscal year 2004 balances compared to 2003.

Table 4
 Capital Assets
 (Net of Depreciation)

	Governmental Activities	
	2004	2003
Land and Land Improvements	\$582,967	\$959,094
Buildings and Improvements	11,310,382	10,884,380
Furniture and Equipment	5,288,024	5,190,368
Vehicles	1,789,892	1,769,663
Totals	\$18,971,265	\$18,803,505

Marietta City School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
 Unaudited

During fiscal year 2004, the Board of Education purchased a bus for \$63,689, replaced a portion of the high school roof for \$176,969, and, with a H.B. 264 energy project totaling \$821,529, replaced the windows and boilers at the high school, retrofitted the lighting at the high school, and placed energy controls at both the high school and middle school. Also, the Board of Education sold the Oak Grove and Fairview elementary schools.

Debt

At June 30, 2004, the School District had \$4,296,529 in bonds and loans outstanding.

Table 5
 Outstanding Debt, at Fiscal Year End

	Governmental Activities	
	2004	2003
2002 School Improvement Refunding Bonds:		
Serial Bonds	\$2,810,000	\$3,705,000
Capital Appreciation Bonds at Maturity	690,000	690,000
Energy Conservation Bonds	776,529	0
Lunchroom Loan	20,000	40,000
Capital Leases	0	2,573
Totals	\$4,296,529	\$4,437,573

In July 1999, the School District obtained a \$100,000 interest free loan to finance lunchroom capital acquisitions. \$20,000 payments are made yearly through fiscal year 2005.

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

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

Current Issues

Over the past several years, the School District has remained in a difficult financial position with an ending cash balance less than recommended. Due to reduced State revenues, changes in the law which reduces the business tax base and the overall economic climate, the School District will remain in this position for the foreseeable future until new funding can be assured.

Marietta City School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

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

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

Contacting the School District's Financial Management

This financial report is designed to provide our citizen's, taxpayers, and investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact David B. Combs, Treasurer/CFO at Marietta City School District, 701 Third Street, Marietta, Ohio 45750, or E-Mail at MA_DAVIDC@SEOVEC.ORG.

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Marietta City School District, Ohio

Statement of Net Assets - Cash Basis

June 30, 2004

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$3,583,704</u>
Net Assets	
Restricted for:	
Capital Projects	189,631
Debt Service	1,038,074
Textbooks	153,863
Budget Stabilization	79,089
Other Purposes	518,050
Unrestricted	<u>1,604,997</u>
<i>Total Net Assets</i>	<u><u>\$3,583,704</u></u>

See accompanying notes to the basic financial statements

Marietta City School District, Ohio

*Statement of Activities - Cash Basis
For the Fiscal Year Ended June 30, 2004*

	Program Cash Receipts				Net (Disbursements)
	Cash	Charges for	Operating Grants,	Capital	Receipts and
					Disbursements
			and Interest	Contributions	Net Assets
					Governmental
					Activities
Governmental Activities					
Instruction:					
Regular	\$10,733,795	\$665,159	\$375,734	\$0	(\$9,692,902)
Special	2,855,005	12,742	1,765,332	0	(1,076,931)
Vocational	112,922	0	27,421	0	(85,501)
Adult/Continuing	82,270	0	78,411	0	(3,859)
Support Services:					
Pupil	1,112,047	516	65,278	0	(1,046,253)
Instructional Staff	1,510,226	2,768	432,479	0	(1,074,979)
Board of Education	85,240	0	0	0	(85,240)
Administration	1,872,155	56,899	86,437	0	(1,728,819)
Fiscal	471,760	5,527	0	0	(466,233)
Business	246,592	0	0	0	(246,592)
Operation and Maintenance of Plant	2,159,016	5,683	4,080	0	(2,149,253)
Pupil Transportation	1,160,301	24,231	102,017	20,421	(1,013,632)
Central	69,590	0	29,410	0	(40,180)
Operation of Non-Instructional Services:					
Food Service Operations	643,655	400,353	245,216	0	1,914
Other	197,700	2,099	145,557	0	(50,044)
Extracurricular Activities	493,987	109,308	10,591	0	(374,088)
Capital Outlay	739,377	0	0	0	(739,377)
Principal Retirement	960,000	0	0	0	(960,000)
Interest and Fiscal Charges	109,484	0	0	0	(109,484)
Totals	<u>\$25,615,122</u>	<u>\$1,285,285</u>	<u>\$3,367,963</u>	<u>\$20,421</u>	<u>(20,941,453)</u>
General Receipts					
Property Taxes Levied for:					
General Purposes					10,263,858
Debt Service					859,645
Grants and Entitlements not Restricted to Specific Programs					8,617,828
Investment Earnings					63,310
Receipts from Sale of Capital Assets					397,557
Bonds Issued					821,529
Miscellaneous					127,850
Total General Receipts					<u>21,151,577</u>
Change in Net Assets					210,124
Net Assets Beginning of Year					<u>3,373,580</u>
Net Assets End of Year					<u><u>\$3,583,704</u></u>

See accompanying notes to the financial statements

Marietta City School District, Ohio
Statement of Cash Basis Assets and Fund Balances
Governmental Funds
June 30, 2004

	General	Bond Retirement	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$539,656	\$1,038,074	\$855,040	\$2,432,770
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	339,231	0	0	339,231
<i>Total Assets</i>	<u>\$878,887</u>	<u>\$1,038,074</u>	<u>\$855,040</u>	<u>\$2,772,001</u>
Fund Balances				
Reserved for Encumbrances	123,295	0	281,911	405,206
Reserved for Capital Improvements	106,279	0	0	106,279
Reserved for Textbooks	153,863	0	0	153,863
Reserved for Budget Stabilization	79,089	0	0	79,089
Reserved for Property Taxes	22,664	1,983	0	24,647
Unreserved, Undesignated, Reported in:				
General Fund	393,697	0	0	393,697
Special Revenue Funds	0	0	573,129	573,129
Debt Service Fund	0	1,036,091	0	1,036,091
<i>Total Fund Balances</i>	<u>\$878,887</u>	<u>\$1,038,074</u>	<u>\$855,040</u>	<u>\$2,772,001</u>

Reconciliation to Statement of Net Assets:

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

An internal service fund is used by management to charge the costs of insurance to individual funds.

The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.

811,703

Net Assets of Governmental Activities

\$3,583,704

See accompanying notes to the basic financial statements

Marietta City School District, Ohio

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

Governmental Funds

For the Fiscal Year Ended June 30, 2004

	General	Bond Retirement	Other Governmental Funds	Total Governmental Funds
Receipts				
Taxes	\$10,263,858	\$859,645	\$0	\$11,123,503
Intergovernmental	9,742,242	98,696	2,096,092	11,937,030
Investment Earnings	58,563	4,747	1,100	64,410
Charges for Services	0	0	399,473	399,473
Tuition and Fees	441,999	0	263,600	705,599
Extracurricular Activities	0	0	163,057	163,057
Miscellaneous	173,580	0	39,508	213,088
<i>Total Receipts</i>	<u>20,680,242</u>	<u>963,088</u>	<u>2,962,830</u>	<u>24,606,160</u>
Disbursements				
Current:				
Instruction:				
Regular	10,398,629	0	576,838	10,975,467
Special	2,215,143	0	715,717	2,930,860
Vocational	115,371	0	0	115,371
Adult/Continuing	0	0	84,389	84,389
Support Services:				
Pupil	1,068,704	0	70,205	1,138,909
Instructional Staff	1,045,174	0	511,260	1,556,434
Board of Education	85,240	0	0	85,240
Administration	1,732,686	0	178,573	1,911,259
Fiscal	458,204	16,948	0	475,152
Business	250,831	0	0	250,831
Operation and Maintenance of Plant	2,195,046	0	4,412	2,199,458
Pupil Transportation	1,174,087	0	20,944	1,195,031
Central	43,103	0	28,183	71,286
Operation of Non-Instructional Services	0	0	841,355	841,355
Extracurricular Activities	292,009	0	201,978	493,987
Capital Outlay	0	0	739,377	739,377
Debt Service:				
Principal Retirement	0	940,000	20,000	960,000
Interest and Fiscal Charges	0	109,484	0	109,484
<i>Total Disbursements</i>	<u>21,074,227</u>	<u>1,066,432</u>	<u>3,993,231</u>	<u>26,133,890</u>
<i>Excess of Receipts Under Disbursements</i>	<u>(393,985)</u>	<u>(103,344)</u>	<u>(1,030,401)</u>	<u>(1,527,730)</u>
Other Financing Sources (Uses)				
Bonds Issued	0	0	821,529	821,529
Advances In	499,655	360,000	262,968	1,122,623
Advances Out	(623,653)	(360,000)	(138,970)	(1,122,623)
Sale of Capital Assets	397,557	0	0	397,557
Transfer In	0	0	139,707	139,707
Transfer Out	(139,707)	0	0	(139,707)
<i>Total Other Financing Sources (Uses)</i>	<u>133,852</u>	<u>0</u>	<u>1,085,234</u>	<u>1,219,086</u>
<i>Net Change in Fund Balance</i>	<u>(260,133)</u>	<u>(103,344)</u>	<u>54,833</u>	<u>(308,644)</u>
<i>Fund Balances Beginning of Year</i>	<u>1,139,020</u>	<u>1,141,418</u>	<u>800,207</u>	<u>3,080,645</u>
<i>Fund Balances End of Year</i>	<u>\$878,887</u>	<u>\$1,038,074</u>	<u>\$855,040</u>	<u>\$2,772,001</u>

See accompanying notes to the financial statements

Marietta City School District, Ohio
*Reconciliation of the Statement of Cash Receipts, Cash Disbursements and Changes
in Cash Basis Fund Balances of Governmental Funds to the Statement of Activities - Cash Basis
For the Fiscal Year Ended June 30, 2004*

Net Change in Fund Balances - Total Governmental Funds (\$308,644)

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

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

518,768

Change in Net Assets of Governmental Activities

\$210,124

See accompanying notes to the financial statements

Marietta City School District, Ohio
*Statement of Cash Receipts, Cash Disbursements and Changes
in Cash Basis Fund Balance - Budget and Actual (Budget Basis)*
General Fund
For the Fiscal Year Ended June 30, 2004

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget Positive (Negative)
Receipts				
Taxes	\$9,999,334	\$9,937,903	\$10,263,858	\$325,955
Intergovernmental	10,126,506	10,068,197	9,742,242	(325,955)
Investment Earnings	58,914	58,563	58,563	0
Tuition and Fees	444,644	441,999	441,999	0
Miscellaneous	164,494	173,856	173,580	(276)
<i>Total Receipts</i>	<u>20,793,892</u>	<u>20,680,518</u>	<u>20,680,242</u>	<u>(276)</u>
Disbursements				
Current:				
Instruction:				
Regular	11,297,345	10,666,668	10,493,229	173,439
Special	2,374,938	2,242,364	2,230,532	11,832
Vocational	135,041	127,503	117,391	10,112
Support Services:				
Pupils	1,177,912	1,112,159	1,076,790	35,369
Instructional Staff	1,160,798	1,096,000	1,062,022	33,978
Board of Education	110,497	104,329	96,825	7,504
Administration	1,887,883	1,782,498	1,750,786	31,712
Fiscal	489,360	462,043	458,882	3,161
Business	289,351	273,199	257,361	15,838
Operation and Maintenance of Plant	2,479,272	2,340,874	2,266,502	74,372
Pupil Transportation	1,294,863	1,222,581	1,198,849	23,732
Central	51,993	49,091	48,819	272
Non-Instructional Services	640	640	0	640
Extracurricular Activities	311,606	294,212	292,009	2,203
<i>Total Disbursements</i>	<u>23,061,499</u>	<u>21,774,161</u>	<u>21,349,997</u>	<u>424,164</u>
<i>Excess of Receipts Under Disbursements</i>	<u>(2,267,607)</u>	<u>(1,093,643)</u>	<u>(669,755)</u>	<u>423,888</u>
Other Financing Sources (Uses)				
Proceeds from Sale of Capital Assets	400,256	397,557	397,557	0
Advances In	0	499,655	499,655	0
Advances Out	(9,207)	(623,653)	(623,653)	0
Transfer In	820,000	0	0	0
Transfer Out	(80,661)	(218,796)	(139,707)	79,089
<i>Total Other Financing Sources (Uses)</i>	<u>1,130,388</u>	<u>54,763</u>	<u>133,852</u>	<u>79,089</u>
<i>Net Change in Fund Balance</i>	<u>(1,137,219)</u>	<u>(1,038,880)</u>	<u>(535,903)</u>	<u>502,977</u>
<i>Fund Balance Beginning of Year</i>	766,668	766,668	766,668	0
Prior Year Encumbrances Appropriated	<u>372,352</u>	<u>372,352</u>	<u>372,352</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u>\$1,801</u>	<u>\$100,140</u>	<u>\$603,117</u>	<u>\$502,977</u>

See accompanying notes to the basic financial statements

Marietta City School District, Ohio
Statement of Fund Net Assets - Cash Basis
Internal Service Fund
June 30, 2004

	<u>Medical, Dental, Vision Insurance</u>
Current Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$811,703</u>
Net Assets	
Unrestricted	<u>\$811,703</u>

See accompanying notes to the basic financial statements

Marietta City School District, Ohio
Statement of Cash Receipts, Cash
Disbursements and Changes in Fund Net Assets - Cash Basis
Internal Service Fund
For the Fiscal Year Ended June 30, 2004

	Medical, Dental, Vision Insurance
Operating Receipts	
Charges for Services	\$3,669,195
Operating Disbursements	
Purchased Services	378,936
Claims	2,771,491
<i>Total Operating Expenses</i>	3,150,427
<i>Excess of Receipts Over Disbursements</i>	518,768
Advances In	685
Advances Out	(685)
<i>Change in Net Assets</i>	518,768
<i>Net Assets Beginning of Year</i>	292,935
<i>Net Assets End of Year</i>	\$811,703

See accompanying notes to the basic financial statements

Marietta City School District, Ohio
Statement of Fiduciary Net Assets - Cash Basis
Agency Funds
June 30, 2004

Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$60,115</u>
Net Assets	
Restricted for Students	<u>\$60,115</u>

See accompanying notes to the basic financial statements

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Marietta City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

Note 1 - Description of the School District and Reporting Entity

Marietta City School District is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio.

The School District operates under a locally-elected five-member Board form of government and provides educational services as authorized by State statute and federal guidelines. This Board of Education controls the School District's 10 instructional/support facilities staffed by 112 classified employees and 221 certified personnel, who provide services to 3,191 students and other community members.

Reporting Entity

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

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

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

Note 2 - Summary of Significant Accounting Policies

Although Ohio Administrative Code Section 117-2-03 (B) requires the District's financial report to follow generally accepted accounting principles, the District chooses to prepare its financial statements and notes in accordance with cash-basis of accounting. The District recognizes receipts when received in cash rather than when earned and recognizes disbursements when paid rather than when a liability is incurred.

The District also reports long-term investments as assets, valued at cost.

Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved). Differences between disbursements reported in the fund and entity wide statements versus budgetary expenditures result from encumbrances outstanding at the beginning and end of the fiscal year.

Marietta City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

A. Fund Accounting

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

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

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

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

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

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

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

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

B. Basis of Presentation

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

Government-wide Statement of Activities: This statement displays information about the School District as a whole, except for fiduciary funds. The statement of activities eliminates internal service fund activity to avoid reporting those transactions twice. The statement reports governmental activities separately from business-type activities, if any.

Marietta City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

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

Fund Financial Statements: Fund financial statements report more detailed information about the School District. The focus of governmental and enterprise fund financial statements is on major funds. Fund statements present each major fund in a separate column and aggregate nonmajor funds in a single column. The proprietary fund statement combines all internal service funds into a single column. Fiduciary funds are reported by type.

Proprietary fund statements distinguish operating transactions from nonoperating transactions. Operating receipts generally result from exchange transactions such as charges for services directly relating to the funds' principal services. Operating disbursements include costs of sales and services and administrative costs. The fund statements report all other receipts and disbursements as nonoperating.

C. Cash, Cash Equivalents, and Investments

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 the School District's records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents".

During fiscal year 2004, investments were limited to STAROhio. STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on June 30, 2004.

The District values investments and cash equivalents at cost. For presentation on the financial statements, the District classifies investments of the cash management pool as cash equivalents.

Following Ohio statutes, the Board of Education specified the funds to receive an allocation of interest earnings. Interest receipts credited to the General Fund during fiscal year 2004 was \$58,563, including \$35,756 assigned from other School District funds.

D. Restricted Assets

The financial statements classify cash, cash equivalents and investments as restricted when external limitations change the nature or normal understanding of their use. Creditors, contributors, grantors, laws of other governments, or enabling legislation are the sources of the restrictions. Restricted assets include amounts required by statute to be set-aside by the School District for the creation of a reserve for budget stabilization, for the purchase of textbooks, and for the acquisition or construction of capital assets. See Note 12 for additional information regarding these set-asides.

Marietta City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

E. Inventory and Prepaid Items

On the cash-basis of accounting, inventories of supplies and food service items are reported as disbursements when purchased.

F. Capital Assets

Acquisitions of property, plant and equipment are recorded as disbursements when paid. The financial statements do not report these assets.

G. Compensated Absences

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

H. Long-term Obligations

These cash basis financial statements do not report liabilities for bonds and other long-term obligations. These statements report proceeds of debt when cash is received and debt service disbursements for debt principal payments.

I. Fund Balance Reserves

The School District reserves those portions of fund equity legally segregated for a specific future use or which are not available for appropriation or disbursement. Fund equity reserves have been established for encumbrances, capital improvements, textbooks, budget stabilization, and property taxes.

The reserve for property taxes represents taxes available against the first real estate tax settlement in fiscal year 2005 but not available for appropriation under State statute. The reserve for budget stabilization represents money set-aside to protect against cyclical changes in receipts and disbursements.

J. Net Assets

The statements report restricted net assets when enabling legislation or creditors, grantors or laws, or regulations of other governments have imposed limitations on their use.

The School District first applies restricted resources when incurring a disbursement for which it may use either restricted or unrestricted resources.

K. Interfund Activity

The statements report exchange transactions between funds as receipts in the seller funds and as disbursements in the purchasing funds. Nonexchange flows of cash from one fund to another are reported as interfund transfers. Governmental funds report interfund transfers as other financing sources/uses; proprietary funds report transfers after nonoperating receipts and disbursements. The statements do not report repayments from funds responsible for particular disbursements to the funds initially paying the costs.

The statements report interfund loans as advances when made or repaid. Note 5 lists unpaid advances receivable and payable.

Marietta City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

L. Budgetary Process

Ohio law requires the Board of Education to budget and appropriate all funds, other than agency funds. The major documents prepared are the tax budget, the appropriation resolution, and the certificate of estimated resources, which use the budgetary basis of accounting. The budgetary basis reports expenditures when a commitment is made (i.e., when an encumbrance is approved). The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at a level of control the Board selects. The legal level of control has been established by the Board of Education at the fund level. The Chief Fiscal Officer maintains budgetary information at the fund, function, and object level and has the authority to allocate appropriations at the function and object level without resolution by the Board.

The certificate of estimated resources may be amended during the year if the School District Treasurer projects increases or decreases in receipts. The amounts reported as the original budget in the budgetary statements reflect the amounts in the certificate when the Board adopted the original appropriations. The amounts reported as the final budget in the budgetary statements reflect the amounts in the amended certificate in effect at the time the final appropriations were passed.

The Board may amend appropriations throughout the year with the restriction that appropriations may not exceed estimated resources. The amounts reported as the original budget reflect the first appropriation for a fund covering the entire fiscal year, including amounts automatically carried over from prior years. The amounts reported as the final budget represent the final appropriation the Board passed during the year.

Note 3 - 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 2004 represents collections of calendar year 2003 taxes. Real property taxes received in calendar year 2004 were levied after April 1, 2003, on the assessed value listed as of January 1, 2003, 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 2004 represents collections of calendar year 2003 taxes. Public utility real and tangible personal property taxes received in calendar year 2004 became a lien December 31, 2002, were levied after April 1, 2003 and are collected in 2004 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Marietta City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

Tangible personal property tax revenue received during calendar 2004 (other than public utility property) represents the collection of 2004 taxes. Tangible personal property taxes received in calendar year 2004 were levied after April 1, 2003, on the value as of December 31, 2003. 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. This year, the June 2004 tangible personal property tax settlement was not received until July 2004.

The School District receives property taxes from Washington County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2004, are available to finance fiscal year 2004 operations. The amount available to be advanced can vary based on the date the tax bills are sent. The amount available as an advance at June 30, 2004, was \$22,664 in the General Fund and \$1,983 in the Bond Retirement Fund.

The assessed values upon which the fiscal year 2004 taxes were collected are:

	2003 Second- Half Collections		2004 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential And Other Real Estate	\$324,170,390	81%	\$329,486,580	82%
Public Utility Personal	15,330,750	4%	15,636,610	4%
Tangible Personal Property	60,814,630	15%	53,952,980	14%
	\$400,315,770	100%	\$399,076,170	100%
Total Rate per \$1,000 of Assessed Valuation	\$43.40		\$43.40	

Note 4 - 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.

Marietta City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

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

Marietta City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

Deposits At fiscal year end, the carrying amount of the School District's deposits was \$3,641,362 and the bank balance was \$3,815,936. Of the bank balance:

1. \$200,000 was covered by federal depository insurance; and
2. \$3,615,936 was collateralized with securities held by the pledging financial institution's trust department in the School District's name.

Investments The School District's investments are required to be 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 counterparty'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. The School District's investment in STAROhio, an investment pool operated by the Ohio State Treasurer, is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form. The fair value of the investment in STAROhio at June 30, 2004, was \$2,457.

Note 5 - Interfund Balances

Unpaid interfund cash advances at June 30, 2004, were as follows:

	Receivables	Payables
General Fund	\$170,090	\$0
Nonmajor Special Revenue Funds:		
Public School Support	0	270
Title V	0	1,169
Title II-A	0	5,868
IDEA-B	0	102,119
Title I	0	59,860
Title IV	0	804
Total Special Revenue Funds	0	170,090
Total All Funds	\$170,090	\$170,090

The interfund transactions between the general and nonmajor special revenue funds are due to the timing of grant receipts.

Note 6 - Interfund Transfers

During the year, the General Fund transferred \$65,000 and \$74,707 to the Athletic and Music and Other Miscellaneous Special Revenue Funds, respectively, to reduce deficit cash balances.

Marietta City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

Note 7 - Risk Management

A. Property and Liability

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2004, the School District contracted with Utica National Insurance Group for general liability, vehicle, and property insurance. Coverage provided by the Utica National Insurance Group is as follows:

Building and Contents-replacement cost (\$5,000 deductible)	\$46,627,200
Boiler and Machinery (\$5,000 deductible)	46,627,200
Inland Marine:	
Cameras and audio-visual equipment (\$250 deductible)	50,000
Signs (\$250 deductible)	30,000
Music Instruments and Band Uniforms (\$250 deductible)	500,000
Computers per Building (\$100 deductible)	
Hardware	50,000
Software	10,000
Extra Expense	10,000
Miscellaneous School Equipment and Property (\$250 deductible)	500,000
Valuable Papers & Records per Building (\$100 deductible)	100,000
Accounts Receivable (no deductible)	50,000
Crime (no deductible) -	
Public Employee Dishonesty	100,000
Money and Securities -	
Inside Premises - Per Occurrence	25,000
Outside Premises - Per Messenger	25,000
Forgery or Alteration	100,000
Automobile Liability (no deductible):	
Bodily Injury and Property Damage - combined single limit	1,000,000
Medical Payments - each person	5,000
Hired Auto Liability	1,000,000
Non-owned Auto Liability	1,000,000
Hired Car Physical Damage	50,000
General Liability (no deductible):	
Each Occurrence	1,000,000
Aggregate Limit	3,000,000
Medical Expense Limit - per person/accident	5,000
Employee Benefits Liability (\$1,000 deductible):	
Per Claim	1,000,000
Aggregate Limit	3,000,000
Educators Legal Liability (\$5,000 deductible):	
Per Claim	1,000,000
Aggregate Limit	3,000,000

Marietta City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

Umbrella:	
Each Occurrence	\$2,000,000
Aggregate Limit	2,000,000
Retention	10,000

Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There has been no significant reduction in insurance coverage from coverage in fiscal year 2004.

B. Workers' Compensation

For fiscal year 2004, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 16). The intent of the GRP is to achieve a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. GRP then calculates total savings and each participant's individual performance is compared to the overall Plan's savings percentage. A participant then either receives money from or contributes to GRP's equity pooling fund. This equity pooling arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria.

C. Employee Medical Benefits

Medical, dental, and vision insurance is offered to employees through a self-insurance internal service fund. Monthly premiums for the cost of claims are remitted to the fiscal agent who in turn pays the claims on the School District's behalf. The claims liability of \$604,589, which is based on an estimate provided by the third party administrator, includes unpaid claim costs and estimates of costs relating to incurred but not reported claims. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. A comparison of self-insurance fund cash and investments to the actuarially-measured liability as of June 30 follows:

	Cash and Investments	Actuarial Liabilities
2003	\$327,032	\$504,928
2004	811,703	604,589

Note 8 - Defined Benefit Pension Plans

A. State Teachers Retirement System

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

Marietta City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

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, 2004, 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 2003, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% 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, 2004, 2003, and 2002, were \$1,340,061, \$1,493,006, and \$989,315, respectively; 83.16 percent has been contributed for fiscal year 2004 and 100 percent for fiscal years 2003 and 2002. Contributions to the DC and Combined Plans for fiscal year 2004 were \$1,219 made by the School District and \$9,655 made by the plan members.

B. School Employees Retirement System

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

Marietta City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

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 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17 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, 2004, 2003, and 2002, were \$280,416, \$283,006, and \$179,401, respectively; 53.51 percent has been contributed for fiscal year 2004 and 100 percent for fiscal years 2003 and 2002.

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, 2004, four members of the Board of Education elected Social Security. The Board's liability is 6.2 percent of wages paid.

Note 9 - Postemployment Benefits

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

All STRS Ohio benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. 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 Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2004, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$103,082 for fiscal year 2004.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2003, (the latest information available) the balance in the Fund was \$2.8 billion. For the year ended June 30, 2003, net health care costs paid by STRS Ohio were \$352,301,000 and STRS Ohio had 108,294 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 of 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, 2004, employer contributions to fund health care benefits were 4.91 percent of covered payroll.

Marietta City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

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 2004, the minimum pay was established at \$25,400. For the School District, the amount contributed to fund health care benefits during the 2004 fiscal year equaled \$215,992.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2003 (the latest information available), were \$204,930,737 and the target level was \$307.4 million. At June 30, 2003, SERS had net assets available for payment of health care benefits of \$303.6 million. SERS has approximately 50,000 participants currently receiving health care benefits.

Note 10 - Long-Term Debt

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

	Principal Outstanding 6/30/03	Additions	Reductions	Principal Outstanding 6/30/04	Amounts Due in One Year
Governmental Activities					
2002 School Improvement Refunding Bonds:					
Serial Bonds - 2%-2.75%	\$3,705,000	\$0	\$895,000	\$2,810,000	\$915,000
Capital Appreciation Bonds at Maturity - 3.91%	690,000	0	0	690,000	0
2003 Energy Conservation Improvement Bonds - 4.54%					
	0	821,529	45,000	776,529	41,529
Total General Obligation Bonds	<u>4,395,000</u>	<u>821,529</u>	<u>940,000</u>	<u>4,276,529</u>	<u>956,529</u>
Loan Payable - 0%	40,000	0	20,000	20,000	20,000
Capital Leases Payable	<u>2,573</u>	<u>0</u>	<u>2,573</u>	<u>0</u>	<u>0</u>
Total Governmental Activities Long-Term Obligations	<u>\$4,437,573</u>	<u>\$821,529</u>	<u>\$962,573</u>	<u>\$4,296,529</u>	<u>\$976,529</u>

Capital leases were paid from the General Fund. In July, 1999, the School District obtained a \$100,000 interest free loan to finance lunchroom capital acquisitions. \$20,000 payments will be made yearly through fiscal year 2005.

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

Marietta City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

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

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

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

The overall debt margin of the School District as of June 30, 2004, was \$31,640,326, with an unvoted debt margin of \$399,076.

Principal and interest requirements to retire the general obligation debt outstanding at June 30, 2004, were as follows:

Fiscal Year Ending	Refunding Bonds					
	Serial		Capital Appreciation		Energy Conservation	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$915,000	\$61,213	\$0	\$0	\$41,529	\$34,312
2006	935,000	38,087	0	0	45,000	32,348
2007	960,000	13,200	0	0	40,000	30,418
2008	0	0	690,000	295,000	50,000	28,375
2009	0	0	0	0	50,000	26,105
2010-2014	0	0	0	0	275,000	94,774
2015-2018	0	0	0	0	275,000	25,538
	\$2,810,000	\$112,500	\$690,000	\$295,000	\$776,529	\$271,870

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

Note 11 - Contingencies

A. Grants

The School District receives financial assistance from federal and State agencies in the form of grants. Disbursing grant funds generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit. Any disallowed claims resulting from such audits could become a liability. However, in the opinion of management, any such disallowed claims through June 30, 2004, will not have a material adverse effect on the School District.

Marietta City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

B. Litigation

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

Note 12 - Set-Aside Calculations

State statute annually requires the School District to set aside in the general fund an amount based on a statutory formula to purchase textbooks and other instructional materials and an equal amount to acquire and construct capital improvements. Amounts not spent by year end or offset by similarly restricted resources received during the year must be held in cash at year end and carried forward for the same uses in future years. In prior fiscal years, the School District was also required to set aside money for budget stabilization. At June 30, 2004, only the unspent portion of certain workers' compensation refunds continues to be set-aside.

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

	Budget Stabilization Reserve	Capital Improvements Reserve	Textbooks Instructional Materials Reserve
Set-aside Reserve Balance as of June 30, 2003	\$80,661	\$206,512	\$239,777
Current Year Set-aside Requirement	0	443,095	443,095
Qualifying Disbursements	(1,572)	(543,328)	(529,009)
Total	\$79,089	\$106,279	\$153,863
Set-aside Balance Carry Forward to Future Fiscal Years	\$79,089	\$106,279	\$153,863

Note 13 - Contractual Commitments

At fiscal year end, the School District had unpaid contractual commitments of \$65,113 for roofing repairs at the high school gymnasium and at the Washington Elementary gymnasium and cafeteria and \$112,120 for energy conservation upgrades.

Note 14 - State School Funding Decision

On December 11, 2003, 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 plan 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 its financial operations.

Marietta City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

Note 15 - Jointly Governed Organizations

A. Southeastern Ohio Voluntary Education Cooperative (SEOVEC)

SEOVEC was created as a regional council of governments pursuant to State statutes. SEOVEC is a computer consortium formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. SEOVEC has 38 participants consisting of 30 school districts and 8 educational service centers. SEOVEC is governed by a governing board which is selected by the member districts. SEOVEC possesses its own budgeting and taxing authority. During fiscal year 2004, the School District paid \$70,206 to SEOVEC. To obtain financial information write to the Southeastern Ohio Voluntary Education Cooperative, Bobbi Weidner, Treasurer, at 221 North Columbus Road, Athens, Ohio 45701.

B. Washington County Career Center

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

C. Coalition of Rural and Appalachian Schools

The Coalition of Rural and Appalachian Schools is a jointly governed organization including over 100 hundred school districts in southeastern Ohio. The Coalition is operated by a Board which is composed of fourteen members. The board members are composed of one superintendent from each county elected by the school districts within that county. The Council provides various in-service for school district administrative personnel; gathers of data regarding conditions of education in the region; cooperates with other professional groups to assess and develop programs designed to meet the needs of member districts; and provides staff development programs for school district personnel. The Council is not dependent on the continued participation of the School District and the School District does not maintain an equity interest in or financial responsibility for the Council. The School District's membership fee was \$300 for fiscal year 2004.

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

SEOSERRC is a special education service center which selects its own board, adopts its own budget and receives direct Federal and State grants for its operation. The jointly-governed organization was formed for the purpose of initiating, expanding and improving special education programs and services for children with disabilities and their parents. SEOSERRC is governed by a board composed of superintendents of participating schools, parents of children with disabilities, representatives of chartered nonpublic schools, representatives of county boards of MR/DD, Ohio University, and the Southeast Regional Professional Development Center whose terms rotate every year. The degree of control exercised by any participating school district is limited to its representation on the Board. During fiscal year 2004, the School District paid \$10,585 to SEOSERRC. Financial information can be obtained by contacting Bryan Swann, Treasurer, at the Athens-Meigs Educational Service Center, 507 Richland Avenue, Suite 108, Athens, Ohio 45701.

Marietta City School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

Note 16 - Insurance Purchasing Pool

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.

Note 17 - Subsequent Event

Effective October 1, 2004, the School District will no longer be self-insured for its medical benefits.

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**MARIETTA CITY SCHOOL DISTRICT
WASHINGTON COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2004**

FEDERAL GRANTOR <i>Pass-through Grantor</i> Program Title	Federal CFDA Number	Pass-through Entity Number	Receipts	Noncash Receipts	Disbursements	Noncash Disbursements
UNITED STATES DEPARTMENT OF AGRICULTURE						
<i>Passed through Ohio Department of Education:</i>						
Nutrition Cluster:						
Food Donation	10.550	N/A	\$	\$ 63,886	\$	\$ 63,886
School Breakfast Program	10.553	05PU-2003 05PU-2004	5,804 31,859		5,804 31,859	
Total School Breakfast Program			<u>37,663</u>	<u>0</u>	<u>37,663</u>	<u>0</u>
National School Lunch Program	10.555	LLP4-2003 LLP4-2004	30,459 161,337		30,459 161,337	
Total National School Lunch Program			<u>191,796</u>	<u>0</u>	<u>191,796</u>	<u>0</u>
Total Nutrition Cluster			<u>229,459</u>	<u>63,886</u>	<u>229,459</u>	<u>63,886</u>
Total United States Department of Agriculture			229,459	63,886	229,459	63,886
UNITED STATES DEPARTMENT OF EDUCATION						
<i>Passed through Ohio Department of Education:</i>						
Adult Education - State Grant Program	84.002	ABS1-2003 ABS1-2003C ABS1-2004	(1,012) 1,012 68,754		14,928 1,012 61,867	
Total Adult Education - State Grant Program			<u>68,754</u>	<u>0</u>	<u>77,807</u>	<u>0</u>
Title I Grants to Local Educational Agencies	84.010	C1S1-2003 C1S1-2004 C1SD-2003 C1SD-2004	56,090 598,628 6,316 24,559		87,152 623,518 21,500	
Total Title I Grants to Local Educational Agencies			<u>685,593</u>	<u>0</u>	<u>732,170</u>	<u>0</u>
Special Education - Grants to States	84.027	6BSF-2003P 6BSF-2004	36,540 317,473		73,486 378,281	
Total Special Education - Grants to States			<u>354,013</u>	<u>0</u>	<u>451,767</u>	<u>0</u>
Safe and Drug-Free Schools and Communities - State Grants	84.186	DRS1-2003 DRS1-2004	19,887		2,735 20,690	
Total Safe and Drug-Free Schools and Communities - State Grants			<u>19,887</u>	<u>0</u>	<u>23,425</u>	<u>0</u>
Education for Homeless Children and Youth	84.196	HCS1-2003 HCS1-2004 HCSP-2003P HCSP-2004	(2,637) 23,137 4,470 2,274		32,991 4,470 121	
Total Education for Homeless Children and Youth			<u>27,244</u>	<u>0</u>	<u>37,582</u>	<u>0</u>
Innovative Education Program Strategies	84.298	C2S1-2003 C2S1-2004	(997) 27,634		903 25,732	
Total Innovative Education Program Strategies			<u>26,637</u>	<u>0</u>	<u>26,635</u>	<u>0</u>
Education Technology State Grants	84.318	TJS1-2003 TJS1-2004	(379) 21,675		20,391	
Total Education Technology State Grants			<u>21,296</u>	<u>0</u>	<u>20,391</u>	<u>0</u>
School Renovation, IDEA, and Technology	84.352A	ATS3-2002	(285)		340	
Improving Teacher Quality State Grants	84.367	TRS1-2003 TRS1-2004	19,487 160,788		23,716 162,287	
Total Improving Teacher Quality State Grants			<u>180,275</u>	<u>0</u>	<u>186,003</u>	<u>0</u>
Total United States Department of Education			1,383,414	0	1,556,120	0

**MARIETTA CITY SCHOOL DISTRICT
WASHINGTON COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2004
(Continued)**

FEDERAL GRANTOR <i>Pass-through Grantor</i> Program Title	Federal CFDA Number	Pass-through Entity Number	Receipts	Noncash Receipts	Disbursements	Noncash Disbursements
UNITED STATES DEPARTMENT OF HEALTH AND HUMAN SERVICES						
<i>Passed through Ohio Department of Mental Retardation and Developmental Disabilities:</i>						
<i>Medical Assistance Program -</i>						
Community Alternative Funding System (CAFS)	93.778	N/A	110,373		110,373	
<i>Passed through Washington County Department of Job and Family Services:</i>						
Temporary Assistance for Needy Families	93.558	N/A	10,000		10,956	
<i>Passed through Washington-Morgan Community Action Program:</i>						
Temporary Assistance for Needy Families	93.558	N/A			502	
Total Temporary Assistance for Needy Families			<u>10,000</u>	<u>0</u>	<u>11,458</u>	<u>0</u>
Total United States Department of Health and Human Services			120,373	0	121,831	0
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE						
<i>Passed through Ohio Department of Education:</i>						
Learn and Serve America	94.004	SVS1-2004 SVS2-2003	15,000 (149)		13,131	
Total Learn and Serve America			<u>14,851</u>	<u>0</u>	<u>13,131</u>	<u>0</u>
Total Corporation for National and Community Service			<u>14,851</u>	<u>0</u>	<u>13,131</u>	<u>0</u>
Total Federal Awards Receipts and Expenditures			<u>\$ 1,748,097</u>	<u>\$ 63,886</u>	<u>\$ 1,920,541</u>	<u>\$ 63,886</u>

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

**MARIETTA CITY SCHOOL DISTRICT
WASHINGTON COUNTY, OHIO**

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES
JUNE 30, 2004**

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – GOVERNMENT DONATED FOOD PROGRAM

Program regulations do not require the School District to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. This 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 – TRANSFERS

During 2004, the Ohio Department of Education (ODE) authorized the School District to transfer unneeded funds to other grants as well as carryover monies from the prior fiscal year to the current fiscal year. Authorized transfers and carryover monies are shown as a reduction of federal revenues in the program that the transfer was made from and increased federal revenue in the program that received the transfer or carryover. Also during 2004, the School District refunded to the Ohio Department of Education monies that were not expended during the period of availability. Refunds to the Ohio Department of Education are shown as a reduction of federal revenue in the accompanying Schedule. A detailed listing of the transfers/carryovers and refunds are as follows:

CFDA Number	Program Title	Pass-Through Entity Number	Transfers Out	Transfers In	Refunds
84.002	Adult Basic Education	AB-S1-2003	\$ 1,012	\$	\$
84.002	Adult Basic Education	AB-S1-2003C		1,012	
84.010	Title I Grants to Local Educational Agencies	C1-S1-2003	13,617		
84.010	Title I Grants to Local Educational Agencies	C1-S1-2004		13,617	
84.010	Title I Grants to Local Educational Agencies	C1-SD-2003	2,613		
84.010	Title I Grants to Local Educational Agencies	C1-SD-2004		2,613	
84.196	Education for Homeless Children and Youth	HC-S1-2003	2,637		
84.196	Education for Homeless Children and Youth	HC-S1-2004		2,637	
84.298	Innovative Program Strategies	C2-S1-2003	997		
84.298	Innovative Program Strategies	C2-S1-2004		997	
84.318	Education Technology State Grants	TJ-S1-2003	379		
84.318	Education Technology State Grants	TJ-S1-2004		379	
84.352A	School Renovation, IDEA, and Technology	AT-S3-2002			285
94.004	Learn and Serve America	SV-S2-2003			149
		Total	<u>\$ 21,255</u>	<u>\$ 21,255</u>	<u>\$ 434</u>

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Auditor of State Betty Montgomery

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

Marietta City School District
Washington County
701 Third Street
Marietta, Ohio 45750

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Marietta City School District, Washington County, Ohio (the School District), as of and for the year ended June 30, 2004, which collectively comprise the School District's basic financial statements and have issued our report thereon dated November 2, 2004, wherein we noted the School District has not prepared financial statements in accordance with accounting principles generally accepted in the United States of America. As of and for the year ended June 30, 2003, the District prepared financial statements in accordance with accounting principles generally accepted in the United States of America. 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 basic financial statements are free of material misstatement, we tested 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 we must report under *Government Auditing Standards*, which is described in the accompanying Schedule of Findings as item 2004-001. We also noted an immaterial instance of noncompliance that we have reported to the School District's management in a separate letter dated November 2, 2004.

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. However, we noted a matter involving the internal control over financial reporting that does not require inclusion in this report, that we have reported to the School District's management in a separate letter dated November 2, 2004.

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Marietta City School District
Washington 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 2, 2004



Auditor of State Betty Montgomery

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

Marietta City School District
Washington County
701 Third Street
Marietta, Ohio 45750

To the Board of Education:

Compliance

We have audited the compliance of the Marietta City School District, Washington County, Ohio (the School District), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2004. The School District's major federal program is 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 program 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 program for the year ended June 30, 2004.

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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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 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 2, 2004

**MARIETTA CITY SCHOOL DISTRICT
WASHINGTON COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2004**

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

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

FINDING NUMBER 2004-001

Noncompliance Citation

Ohio Rev. Code Section 117.38 provides that each public office shall file a financial report for each fiscal year. Cash-basis entities must file annual reports with the Auditor of State within 60 days of the fiscal year end. GAAP-basis entities must file annual reports within 150 days. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. Ohio Administrative Code Section 117-2-03 further clarifies the requirements of Ohio Rev. Code Section 117.38.

**MARIETTA CITY SCHOOL DISTRICT
WASHINGTON COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2004
(Continued)**

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

FINDING NUMBER 2004-001 (Continued)

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

We found the School District did not file its annual financial report with the Auditor of State within 60 days of the fiscal year end. Also, the Ohio Admin. Code Section 117-2-03(B) requires the School District to file its annual financial report in accordance with generally accepted accounting principles. However, the School District prepares its financial statements in accordance with standards established by the Auditor of State for governmental entities not required to prepare annual reports in accordance with generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities and disclosures that, while material, cannot be determined at this time. Pursuant to Ohio Rev. Code Section 117.38, the School District can be fined and various other administrative remedies for its failure to file the required financial report.

We recommend the School District file its financial report with the Auditor of State within 60 days of the fiscal year end. We also recommend the School District take the necessary steps to ensure that the annual financial report is prepared and filed pursuant to generally accepted accounting principles.

3. FINDINGS FOR FEDERAL AWARDS

None.



**Auditor of State
Betty Montgomery**

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**MARIETTA CITY SCHOOL DISTRICT
WASHINGTON COUNTY**

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
DECEMBER 23, 2004**