



**Auditor of State
Betty Montgomery**

**MARTINS FERRY CITY SCHOOL DISTRICT
BELMONT COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Martins Ferry City School District, Belmont County, Ohio (the School District), as of and for the year ended June 30, 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 reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the Martins Ferry City School District, Belmont County, Ohio, as of June 30, 2004, and the respective changes in financial position, where applicable, and the respective budgetary comparison for the General Fund thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended June 30, 2004, the School District implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 28, 2005, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. It does not opine on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information 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 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 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

February 28, 2005

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

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

- In total, net assets increased \$39,590.
- General revenues accounted for \$8,304,684 in revenue or 69 percent of all revenues. Program specific revenues in the form of charges for services, grants, contributions, and interest accounted for \$3,658,160 or 31 percent of total revenues of \$11,962,844.
- Total assets of governmental activities increased \$76,279 primarily due to an increase in current and capital assets which was offset by annual depreciation expense.
- The School District had \$11,923,254 in expenses related to governmental activities; only \$3,658,160 of these expenses were offset by program specific charges for services, grants, contributions, and interest. General revenues of \$8,304,684 were adequate to provide for these programs.
- The School District's only major fund is the General Fund which had \$9,337,270 in revenues and \$9,171,782 in expenditures. The General Fund's balance increased \$165,488.

Using this Annual Financial Report

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

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

Martins Ferry City School District
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 and Statement of Activities

While this document contains information about the large number of funds used by the School District to provide programs and activities for students, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2004?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the School District's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the School District as a whole, the financial position of the School District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the School District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs, and other factors.

In the Statement of Net Assets and the Statement of Activities, all of the School District's activities are considered to be Governmental Activities.

- Governmental Activities – All of the School District's programs and services are reported here including instruction, support services, operation of non-instructional services, 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 7. 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 only major governmental fund is the general fund.

Governmental Funds Most of the School District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at fiscal year end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the School District's general governmental operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements.

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

The School District as a Whole

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

Table 1
Net Assets

	Governmental Activities	
	2004	2003
Assets		
Current and Other Assets	\$5,691,682	\$5,589,699
Capital Assets	2,126,653	2,152,357
Total Assets	7,818,335	7,742,056
Liabilities		
Long-Term Liabilities	957,330	949,408
Other Liabilities	4,178,038	4,149,271
Total Liabilities	5,135,368	5,098,679
Net Assets		
Invested in Capital Assets		
Net of Debt	2,126,653	2,152,357
Restricted	198,478	255,060
Unrestricted	357,836	235,960
Total Net Assets	\$2,682,967	\$2,643,377

Total assets increased \$76,279. Current assets increased by \$101,983. The decrease in capital assets was due to depreciation expense.

Total liabilities increased \$36,689. The increase is due primarily to increases in accrued wages and benefits and intergovernmental payable. This increase was offset by a decrease in accounts payable.

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2004. Since this is the first year Martins Ferry City School District has prepared financial statements following GASB Statement 34, revenue and expense 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.

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

Table 2
Changes in Net Assets

	Governmental Activities 2004
Revenues	
Program Revenue	
Charges for Services	\$893,367
Operating Grants	2,722,271
Capital Grants	42,522
Total Program Revenue	3,658,160
General Revenue	
Property Taxes	2,736,999
Grants and Entitlements	5,536,230
Investments	30,455
Others	1,000
Total General Revenue	8,304,684
Total Revenues	11,962,844
Program Expenses:	
Instruction:	
Regular	5,158,565
Special	1,708,492
Vocational	182,759
Support Services:	
Pupil	479,215
Instructional Staff	699,117
Board of Education, Administration, and Fiscal	1,390,724
Operation and Maintenance of Plant	1,032,507
Pupil Transportation	445,908
Central	29,188
Operation of Non-Instructional Services	109,672
Food Services Operations	406,303
Extracurricular Activities	280,804
Total Expenses	11,923,254
Increase in Net Assets	39,590
Net Assets Beginning of Year (See Note 3)	2,643,377
Net Assets End of Year	\$2,682,967

In 2004, 23 percent of the School District's revenues were from property taxes and 46 percent were from unrestricted grants and entitlements.

Program revenues accounted for 31 percent of the School District's revenues in fiscal year 2004. These revenues consist of tuition and fees, charges for providing lunches to students, transportation and vocational services provided to other school districts, grants for specified purposes, and contributions and donations.

Instructional programs comprise approximately 59 percent of total governmental program expenses. Of the instructional expenses, approximately 73 percent is for regular instruction, 24 percent for special instruction, and 3 percent for vocational instruction.

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

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. In other words, it identifies the cost of those services supported by tax revenue and unrestricted entitlements. Comparisons to 2003 have not been made since they are not available.

Table 3
Governmental Activities

	Total Cost of Services 2004	Net Cost of Services 2004
Instruction:		
Regular	\$5,158,565	\$3,922,565
Special	1,708,492	510,627
Vocational	182,759	137,653
Support Services:		
Pupil	479,215	442,585
Instructional Staff	699,117	347,654
Board of Education, Administration and Fiscal	1,390,724	1,298,496
Operation and Maintenance of Plant	1,032,507	1,030,734
Pupil Transportation	445,908	423,445
Central	29,188	4,852
Operation of Non-Instructional Services	109,672	1,806
Food Service Operations	406,303	(24,221)
Extracurricular Activities	280,804	168,898
	\$11,923,254	\$8,265,094

The dependence upon tax revenues and state subsidies for governmental activities is apparent, as 25 percent of instruction costs, 87 percent of support services costs, and 60 percent of extracurricular activities costs are supported through taxes and other general revenues.

The School District Funds

The School District's governmental funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$11,987,665 and expenditures of \$11,883,443.

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

General Fund Budgeting Highlights

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

During the course of fiscal 2004 the School District amended its general fund appropriations, and the budgetary statement reflects both the original and final appropriated amounts. There were no significant changes between the original and the final budget.

For the General Fund, budget basis revenues were \$633,795 above final estimates of \$8,690,900. Of this difference, most was due to conservative tax estimates, based on the County Auditor's certification, and conservative state funding estimates.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2004, the School District had \$2,126,653 invested in land, land improvements, buildings and improvements, furniture, fixtures, machinery and equipment, and vehicles. Table 4 shows fiscal year 2004 balances compared to 2003.

Table 4
Capital Assets at June 30
(Net of Depreciation)

	Governmental Activities	
	2004	2003
Land	\$17,046	\$17,046
Land Improvements	9,216	14,641
Buildings and Improvements	1,021,655	1,018,662
Furniture, Fixtures, Machinery And Equipment	890,502	913,082
Vehicles	188,234	188,926
Totals	\$2,126,653	\$2,152,357

See note 9 for more detailed information of the School District's capital assets.

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

Debt

At June 30, 2004, the School District did not have any outstanding debt.

Economic Factors

The finances of the School District have continued to improve for the fifth consecutive year. The District student enrollment continues to grow, as does the open enrollment student population. This has been a key reason why the School District has been able to increase its ending cash balance over the last five years.

The School District added several new positions during fiscal year 2004. The School District added a full-time principal at Hilltop School. The School District expanded the Special Education Program by hiring two Severe Behavioral Handicapped teachers and one Multi-Handicapped teacher. The expanding of the Special Education Program will allow for Martins Ferry students who have a handicap the opportunity to attend school in Martins Ferry. Previously, these handicapped students would have had to attend other school districts. The School District also started a Pre-School Program at Hilltop School.

The outlook for the School District is a bright one, as a major school building project looms on the horizon. The School District passed a 5.59 mill, 28 year Construction Bond Levy on November 4, 2004. The Construction Bond Levy will generate \$10,520,000. This levy will allow the School District to participate in the Ohio School Facilities Commission (OFSC) Classroom Facilities Assistance Program. The OFSC share of this project will be \$28,564,754. This project will allow the School District to close five current school buildings and house its students in two new buildings. The projected date of completion of the building project is December 2007.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information contact Albert Skulich, Treasurer/CFO at Martins Ferry City School District, 633 Hanover Street, Martins Ferry, Ohio 43935.

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Martins Ferry City School District
Statement of Net Assets
June 30, 2004

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	\$2,127,409
Intergovernmental Receivable	370,154
Prepaid Items	21,202
Inventory Held for Resale	15,203
Materials and Supplies Inventory	1,890
Property Taxes Receivable	3,155,824
Non-Depreciable Capital Assets	17,046
Depreciable Capital Assets, Net	2,109,607
<i>Total Assets</i>	7,818,335
Liabilities	
Accounts Payable	41,820
Accrued Wages and Benefits Payable	1,052,723
Intergovernmental Payable	290,219
Matured Severance Payable	22,242
Special Termination Benefits Payable	13,000
Vacation Benefits Payable	56,928
Deferred Revenue	2,701,106
Long-Term Liabilities:	
Due Within One Year	15,435
Due In More Than One Year	941,895
<i>Total Liabilities</i>	5,135,368
Net Assets	
Invested in Capital Assets, Net of Related Debt	2,126,653
Restricted for:	
Capital Projects	123,221
Other Purposes	75,257
Unrestricted (Deficit)	357,836
<i>Total Net Assets</i>	\$2,682,967

See accompanying notes to the basic financial statements

Martins Ferry City School District
Statement of Activities
For the Fiscal Year Ended June 30, 2004

	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities				
Instruction:				
Regular	\$5,158,565	\$608,324	\$609,586	\$18,090
Special	1,708,492	0	1,197,865	0
Vocational	182,759	0	45,106	0
Support Services:				
Pupil	479,215	0	36,630	0
Instructional Staff	699,117	0	349,146	2,317
Board of Education	40,936	0	0	0
Administration	1,086,885	577	73,320	12,688
Fiscal	262,903	0	4,913	730
Operation and Maintenance of Plant	1,032,507	0	1,773	0
Pupil Transportation	445,908	0	13,766	8,697
Central	29,188	0	24,336	0
Operation of Non-Instructional Services	109,672	0	107,866	0
Food Service Operations	406,303	172,560	257,964	0
Extracurricular Activities	280,804	111,906	0	0
<i>Total Governmental Activities</i>	<u>\$11,923,254</u>	<u>\$893,367</u>	<u>\$2,722,271</u>	<u>\$42,522</u>

General Revenues

Property Taxes Levied for General Purposes
Property Taxes Levied for Capital Projects
Grants and Entitlements not Restricted to Specific Programs
Investment Earnings
Miscellaneous

Total General Revenues

Change in Net Assets

Net Assets Beginning of Year - See Note 3

Net Assets End of Year

See accompanying notes to the basic financial statements

<u>Net (Expense) Revenue and Changes in Net Assets</u>	
<u>Governmental Activities</u>	
	(\$3,922,565)
	(510,627)
	(137,653)
	(442,585)
	(347,654)
	(40,936)
	(1,000,300)
	(257,260)
	(1,030,734)
	(423,445)
	(4,852)
	(1,806)
	24,221
	(168,898)
	<u>(8,265,094)</u>
	2,570,987
	166,012
	5,536,230
	30,455
	1,000
	<u>8,304,684</u>
	39,590
	<u>2,643,377</u>
	<u><u>\$2,682,967</u></u>

Martins Ferry City School District
Balance Sheet
Governmental Funds
June 30, 2004

	General	Other Governmental Funds	Total Governmental Funds
Assets			
Equity in Pooled Cash and Cash Equivalents	\$1,780,417	\$346,992	\$2,127,409
Receivables:			
Property Taxes	2,966,229	189,595	3,155,824
Intergovernmental	48,647	321,507	370,154
Interfund	20,000	0	20,000
Prepaid Items	21,202	0	21,202
Inventory Held for Resale	0	15,203	15,203
Materials and Supplies Inventory	1,013	877	1,890
	Total Assets	\$874,174	\$5,711,682
	\$4,837,508	\$874,174	\$5,711,682
Liabilities and Fund Balances			
Liabilities			
Accounts Payable	\$21,708	\$20,112	\$41,820
Accrued Wages and Benefits	863,942	188,781	1,052,723
Interfund Payable	0	20,000	20,000
Intergovernmental Payable	161,284	36,291	197,575
Matured Severance Payable	22,242	0	22,242
Special Termination Benefits Payable	13,000	0	13,000
Deferred Revenue	2,861,059	365,126	3,226,185
	Total Liabilities	630,310	4,573,545
	3,943,235	630,310	4,573,545
Fund Balances (Deficit)			
Reserved for Encumbrances	7,826	7,780	15,606
Reserved for Property Taxes	121,246	8,405	129,651
Unreserved, Undesignated, Reported in:			
General Fund	765,201	0	765,201
Special Revenue Funds	0	131,386	131,386
Capital Projects Funds	0	96,293	96,293
	Total Fund Balances	243,864	1,138,137
	894,273	243,864	1,138,137
Total Liabilities and Fund Balances	\$4,837,508	\$874,174	\$5,711,682

See accompanying notes to the basic financial statements

Martins Ferry City School District
*Reconciliation of Total Governmental Fund Balances
to Net Assets of Governmental Activities
June 30, 2004*

Total Governmental Fund Balances \$1,138,137

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

Capital assets used in governmental activities are not financial
resources and therefore are deferred in the funds. 2,126,653

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

Grants	200,012
Property Taxes	<u>325,067</u>

Total 525,079

Intergovernmental payable includes contractually required pension
contributions not expected to be paid with available resources,
and therefore, are not reported in the funds. (92,644)

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

Compensated Absences	957,330
Vacation Benefits Payable	<u>56,928</u>

Total (1,014,258)

Net Assets of Governmental Activities \$2,682,967

See accompanying notes to the basic financial statements

Martins Ferry City School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2004

	General	Other Governmental Funds	Total Governmental Funds
Revenues			
Property Taxes	\$2,631,491	\$167,663	\$2,799,154
Intergovernmental	6,066,066	2,183,454	8,249,520
Interest	30,455	0	30,455
Tuition and Fees	608,324	0	608,324
Extracurricular Activities	0	112,483	112,483
Contributions and Donations	934	13,235	14,169
Charges for Services	0	172,560	172,560
Miscellaneous	0	1,000	1,000
<i>Total Revenues</i>	<u>9,337,270</u>	<u>2,650,395</u>	<u>11,987,665</u>
Expenditures			
Current:			
Instruction:			
Regular	4,478,392	671,205	5,149,597
Special	960,736	741,023	1,701,759
Vocational	169,771	1,841	171,612
Support Services:			
Pupil	438,202	39,162	477,364
Instructional Staff	311,379	371,908	683,287
Board of Education	40,936	0	40,936
Administration	935,330	101,511	1,036,841
Fiscal	246,057	10,870	256,927
Operation and Maintenance of Plant	991,579	57,065	1,048,644
Pupil Transportation	425,941	15,617	441,558
Central	7,159	24,873	32,032
Operation of Non-Instructional Services	0	109,387	109,387
Food Service Operations	0	409,279	409,279
Extracurricular Activities	163,300	103,179	266,479
Capital Outlay	3,000	54,741	57,741
<i>Total Expenditures</i>	<u>9,171,782</u>	<u>2,711,661</u>	<u>11,883,443</u>
<i>Net Change in Fund Balances</i>	165,488	(61,266)	104,222
<i>Fund Balances (Deficit) Beginning of Year - Restated (Note 3)</i>	<u>728,785</u>	<u>305,130</u>	<u>1,033,915</u>
<i>Fund Balances (Deficit) End of Year</i>	<u>\$894,273</u>	<u>\$243,864</u>	<u>\$1,138,137</u>

See accompanying notes to the basic financial statements

Martins Ferry City School District
*Reconciliation of the Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2004*

Net Change in Fund Balances - Total Governmental Funds **\$104,222**

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

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

Capital Outlay	307,250	
Depreciation	<u>(332,954)</u>	
Total		(25,704)

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

Grants	37,334	
Property Taxes	<u>(62,155)</u>	
Total		(24,821)

Some expenses reported in the statement of activities, such as compensated absences, vacation benefits payable and intergovernmental payables, which represent contractually required pension contributions, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Intergovernmental Payable	(5,074)	
Vacation Benefits Payable	(1,111)	
Compensated Absences Payable	<u>(7,922)</u>	
Total		<u>(14,107)</u>

Changes in Net Assets of Governmental Activities **\$39,590**

See accompanying notes to the basic financial statements

Martins Ferry City School District
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2004

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Property Taxes	\$2,518,070	\$2,464,900	\$2,631,153	\$166,253
Intergovernmental	5,643,435	5,670,000	6,040,253	370,253
Interest	35,000	35,000	44,031	9,031
Tuition and Fees	514,395	521,000	608,324	87,324
Rent	0	0	934	934
Contributions and Donations	0	0	0	0
Charges for Services	0	0	0	0
Miscellaneous	0	0	0	0
<i>Total Revenues</i>	<u>8,710,900</u>	<u>8,690,900</u>	<u>9,324,695</u>	<u>633,795</u>
Expenditures				
Current:				
Instruction:				
Regular	4,405,628	4,513,500	4,460,369	53,131
Special	782,860	937,700	907,156	30,544
Vocational	193,572	196,700	185,938	10,762
Support Services:				
Pupils	485,030	458,900	430,952	27,948
Instructional Staff	330,258	322,500	302,324	20,176
Board of Education	52,386	49,800	41,802	7,998
Administration	937,160	939,500	925,450	14,050
Fiscal	246,258	245,400	245,127	273
Operation and Maintenance of Plant	1,011,146	1,012,300	1,005,268	7,032
Pupil Transportation	438,530	443,900	422,740	21,160
Central	6,200	7,200	7,145	55
Extracurricular Activities	166,672	166,500	162,200	4,300
Capital Outlay	0	3,000	3,000	0
<i>Total Expenditures</i>	<u>9,055,700</u>	<u>9,296,900</u>	<u>9,099,471</u>	<u>197,429</u>
Excess of Revenues Over (Under) Expenditures	<u>(344,800)</u>	<u>(606,000)</u>	<u>225,224</u>	<u>831,224</u>
Other Financing Sources (Uses)				
Sale of Assets	3,000	3,000	0	(3,000)
Advances In	7,000	7,000	7,000	0
Advances Out	0	(20,000)	(20,000)	0
Total Other Financing Sources (Uses)	<u>10,000</u>	<u>(10,000)</u>	<u>(13,000)</u>	<u>(3,000)</u>
<i>Net Change in Fund Balance</i>	<u>(334,800)</u>	<u>(616,000)</u>	<u>212,224</u>	<u>828,224</u>
<i>Fund Balance Beginning of Year</i>	1,449,910	1,449,910	1,449,910	0
Prior Year Encumbrances Appropriated	<u>109,540</u>	<u>109,540</u>	<u>109,540</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u>\$1,224,650</u>	<u>\$943,450</u>	<u>\$1,771,674</u>	<u>\$828,224</u>

See accompanying notes to the basic financial statements

Martins Ferry City School District
Statement of Fiduciary Net Assets
Fiduciary Fund
June 30, 2004

	<u>Agency</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$15,772</u>
<i>Total Assets</i>	<u><u>\$15,772</u></u>
Liabilities	
Due to Students	<u>\$15,772</u>
<i>Total Liabilities</i>	<u><u>\$15,772</u></u>

See accompanying notes to the basic financial statements

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

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

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

The School District was established in 1853 through the consolidation of existing land areas and school districts. The School District serves an area of approximately 12 square miles. It is located in Belmont County and includes all of the City of Martins Ferry and portions of Pease and Colerain Townships. It is staffed by 69 non-certified employees, 105 certified full-time teaching personnel and 7 administrative employees, who provide services to 1,514 students and other community members. The School District currently operates 6 instructional/support buildings.

Reporting Entity:

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

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

The following activities are included within the reporting entity:

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

The School District is involved with three jointly governed organizations, one related organization, and two insurance purchasing pools. These organizations are the Belmont-Harrison Vocational School, the Ohio Mid-Eastern Regional Educational Service Agency (OME-RESA), the East Central Ohio Special Education Regional Resource Center (ECO-SERRC), the Martins Ferry Public Library, the Ohio Association of School Business Officials Workers' Compensation Group Rating Program (GRP) and the Ohio School Plan which are presented in Notes 15, 16, and 17.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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

Government-wide Financial Statements The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

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

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

B. Fund Accounting

The School District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

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

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

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

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

Fiduciary Fund Types Fiduciary Fund reporting focuses on net assets and changes in net assets. The Fiduciary Fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. The School District has no trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's Agency Fund accounts for student activities.

C. Measurement Focus

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

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

D. Basis of Accounting

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

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

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 6). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

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

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

Property taxes for which there is an enforceable legal claim as of June 30, 2004, but which were levied to finance fiscal year 2005 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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

E. Cash and Cash Equivalents

To improve cash management, 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, the School District had no investments.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2004 amounted to \$30,455 which includes \$6,700 assigned from other School District funds.

For purposes of the combined statement of cash flows and for presentation on the combined balance sheet, investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are considered to be cash equivalents.

Investments with an initial maturity of more than three months not purchased from the pool are reported as investments.

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

F. Restricted Assets

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

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2004, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

H. Inventory

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

I. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of \$1,000. The School District currently only capitalizes land, land improvements, buildings and improvements, furniture, fixtures, machinery and equipment and vehicles. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

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

J. Interfund Balances

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

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

K. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means.

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

L. Accrued Liabilities and Long-term Obligations

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, compensated absences, special termination benefits, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. The unmatured portion of these obligations should be reported as general long-term liabilities segregated between amounts due within one year and amounts due in more than one year.

M. Interfund Activity

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

N. Fund Balance Reserves

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

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

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

O. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net assets restricted for other purposes include resources required to be used for activities for music and athletics and state and federal grants restricted to expenditures for specified purposes.

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

P. Extraordinary and Special Items

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

Q. Estimates

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

R. Budgetary Data

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

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

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

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

NOTE 3 – PRIOR PERIOD RESTATEMENTS AND CHANGE IN ACCOUNTING PRINCIPLES

Changes in Accounting Principles For the fiscal year ended June 30, 2004, the School District has implemented GASB Statement No. 34, “Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments,” GASB Statement No. 37, “Basic Financial Statements for State and Local Governments: Omnibus,” GASB No. 38, “Certain Financial Statement Note Disclosures,” GASB Statement No. 39, “Determining Whether Certain Organizations are Component Units,” GASB Statement No. 41, “Budgetary Comparison Schedules – Perspective Differences”, and GASB Interpretation No. 6, “Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.”

GASB Statement No. 34 creates new basic financial statements for reporting the School District’s financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

GASB Statement No. 37 clarifies certain provisions of Statement No. 34, including the required content of the Management’s Discussion and Analysis, the classification of program revenues and the criteria for determining major funds. GASB Statement No. 38 modifies, establishes and rescinds certain financial statement note disclosures.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

GASB Statement No. 39 further defines the guidelines of GASB Statement No.14, “The Financial Reporting Entity.” At June 30, 2004, there was no effect on fund balance or net assets as a result of implementing GASB Statement 39.

GASB Statement No. 41 allows presentation of budgetary schedules as required supplementary information based on the fund, organization or program structure that the government uses for its legally adopted budget when significant budgetary perspective difference result in the School District not being able to present budgetary comparisons for the general and each major special revenue fund. This statement had no effect on the budgetary statements of the School District for fiscal year 2004.

Restatement of Fund Balances The fund classification was updated during fiscal year 2004 to reclassify the food service fund, previously reported as an enterprise fund as a special revenue fund, the flower fund and the scholarships fund, previously reported as agency funds as special revenue funds and the E-Rate fund, previously reported as a special revenue fund, to be combined with the general fund. These reclassifications, a restatement for accrued benefits payable and the implementation of Interpretation No. 6 had the following effect on fund balance of the major and nonmajor funds of the School District as they were previously reported. The transition from governmental fund balance to net assets of the governmental activities is also presented.

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

	General	Nonmajor Funds	Total
Fund Balances, June 30, 2003	\$817,738	\$242,315	\$1,060,053
Fund Reclassifications:			
E-Rate Fund	5,360	(5,360)	0
Flower Fund	0	113	113
Scholarships Fund	0	17,037	17,037
Food Service Fund	0	101,941	101,941
Restatement of Accrued Benefits Payab	(145,800)	(50,916)	(196,716)
Interpretation 6:			
Special Termination Benefits Payable	(4,330)	0	(4,330)
Compensated Absences	55,817	0	55,817
Restated Fund Balances, June 30, 2003	<u>\$728,785</u>	<u>\$305,130</u>	\$1,033,915
GASB 34 Adjustments:			
Capital Assets			2,152,357
Vacation Benefits Payable			(55,817)
Compensated Absences			(949,408)
Intergovernmental Payable			(87,570)
Deferred Revenue - Delinquent Taxes and Grants			549,900
Governmental Activities Net Assets, June 30, 2003			<u>\$2,643,377</u>

The transition from proprietary fund equity to net assets of the business type activities is as follows:

	<u>Food Service</u>
Fund Equity, June 30, 2003	\$83,140
Fund Reclassification, including the elimination of capital assets and long-term obligations	<u>(83,140)</u>
Business Type Activities, June 30, 2003	<u>\$0</u>

**Martins Ferry City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004**

NOTE 4 - BUDGETARY BASIS OF ACCOUNTING

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

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).
4. Advances in and advances out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).

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

Net Change in Fund Balance

GAAP Basis	\$165,488
Revenue Accruals	(12,575)
Advances In	7,000
Expenditure Accruals	81,054
Advances Out	(20,000)
Encumbrances	<u>(8,743)</u>
Budget Basis	<u><u>\$212,224</u></u>

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

NOTE 5 - CASH AND CASH EQUIVALENTS

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

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the School District Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Board of Education has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit, or by savings or deposit accounts including passbook accounts.

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

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

1. United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. 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 acceptances 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 moneys available for investment at any one time; and,

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

8. Under limited circumstances, corporate debt interests rated in either the two highest rating classification by at least two nationally recognized rating agencies.

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

Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

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

Deposits: At fiscal year end, the carrying amount of the School District's deposits was \$2,143,181 and the bank balance was \$2,312,931. Of the bank balance:

- A. \$100,000 was covered by federal depository insurance; and
- B. \$2,212,931 was uninsured and uncollateralized. Although all statutory requirements for the deposit of money had been followed, non compliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the School District. Real property tax revenue received in calendar 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.

**Martins Ferry City School District
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.

The School District receives property taxes from Belmont County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 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.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2004 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2004 was \$121,246 in the General Fund and \$8,405 in the Permanent Improvement Fund. The amount available as an advance at June 30, 2003, was \$120,908 in the general fund and \$8,574 in the permanent improvement fund.

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

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

	2003 Second Half Collections		2004 First Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential And Other Real Estate	\$85,480,160	75.5%	\$88,427,930	74.7%
Public Utility Personal	21,256,030	18.8%	23,600,330	19.9%
Tangible Personal	6,468,660	5.7%	6,412,230	5.4%
	<u>\$113,204,850</u>	<u>100.0%</u>	<u>\$118,440,490</u>	<u>100.0%</u>
Tax Rate per \$1,000 of assessed valuation		\$37.50		\$37.50

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

NOTE 7 - RECEIVABLES

Receivables at June 30, 2004, consisted of property taxes, interfund, and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. A summary of the principal items of intergovernmental receivables follows:

<u>Governmental Activities:</u>	<u>Amounts</u>
CAFS	\$32,571
Title I	228,568
Titel II-A	72,415
Titel II-D	6,510
Titel V	5,331
Part B - IDEA	8,683
Excess Costs	16,076
Total Intergovernmental Receivables	<u><u>\$370,154</u></u>

NOTE 8 – INTERNAL BALANCES

Interfund balances at June 30, 2004 consist of the following individual interfund receivables and payables:

<u>Interfund Payable</u>	<u>Interfund Receivable</u>
Other Governmental Funds	<u>General Fund</u>
	<u><u>\$20,000</u></u>

The loan to the Title I Special Revenue Fund was made to support the program until federal grant monies are received.

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

NOTE 9 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2004, was as follows:

	Balance at 6/30/03	Additions	Deletions	Balance at 6/30/04
Capital Assets - Not Depreciated:				
Land	\$17,046	0	0	\$17,046
Capital Assets - Depreciated:				
Land Improvements	263,045	0	0	263,045
Buildings and Improvements	2,709,231	23,055	0	2,732,286
Furniture, Fixtures, Machinery and Equipment	2,692,044	229,445	0	2,921,489
Vehicles	724,990	54,750	0	779,740
Total Capital Assets - Depreciated	6,389,310	307,250	0	6,696,560
Less Accumulated Depreciation:				
Land Improvements	(248,404)	(5,425)	0	(253,829)
Buildings and Improvements	(1,690,569)	(20,062)	0	(1,710,631)
Furniture, Fixtures, Machinery and Equipment	(1,778,962)	(252,025)	0	(2,030,987)
Vehicles	(536,064)	(55,442)	0	(591,506)
Total Accumulated Depreciation	(4,253,999)	(332,954)	0	(4,586,953)
Total Capital Assets - Depreciated, Net	2,135,311	(25,704)	0	2,109,607
Governmental Capital Assets, Net	\$2,152,357	(\$25,704)	\$0	\$2,126,653

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$217,422
Special	2,589
Vocational	7,457
Support Services:	
Pupil	1,802
Instructional Staff	8,509
Administration	10,742
Fiscal	259
Operation and Maintenance of Plant	11,238
Pupil Transportation	53,133
Central	316
Food Service Operations	3,959
Operation of Non-Instructional Services	1,758
Extracurricular Activities	13,770
Total Depreciation Expense	<u>\$332,954</u>

**Martins Ferry City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004**

NOTE 10- RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2004 the School District contracted with the Harcum-Hyre Insurance Company, Westfield Insurance Company and Cincinnati Insurance for property and fleet insurance and inland marine coverage. Coverage's provided are as follows:

Building and Contents-replacement cost (\$500 deductible)	\$27,461,107
Boiler and Machinery - (\$500 deductible)	\$100,000
Flood Insurance - Building and Contents (\$5,000 deductible)	\$176,600
Automotive Liability	\$2,000,000
Uninsured Motorists	\$1,000,000
Underinsured Motorists	\$1,000,000

During fiscal year 2004, the School District joined together with other school districts in Ohio to participate in the Ohio School Plan (OSP), a public entity insurance purchasing pool. Each individual school district enters into an agreement with the OSP and its premium is based on types of coverage, limits of coverage, and deductibles that it selects. The School District pays this annual premium amount to the OSP (See Note 17). The types and amounts of coverage provided by the Ohio School Plan are as follows:

General Liability:	
Each Occurance	\$1,000,000
Aggregate Limit	\$3,000,000
Products-Completed Operations Aggregate Limit	\$1,000,000
Personal and Advertising Injury Limit - Each Occurance	\$1,000,000
Fire Damage Limit - Any One Event	\$500,000
Medical Expense - Each Occurance	\$10,000
Medical Expense - Aggregate Limit	\$10,000
Employee Benefits Liability:	
Each Occurance	\$1,000,000
Aggregate Limit	\$3,000,000
Employers' Liability:	
Each Occurance	\$1,000,000
Disease - Each Employee	\$1,000,000
Legal Liability:	
Errors and Omissions - Each Occurance (\$2,500 Deductible)	\$1,000,000
Errors and Omissions - Aggregate Limit (\$2,500 Deductible)	\$2,000,000
Violence:	
Plan Aggregate Limit	\$1,000,000
Aggregate Limit	\$500,000
Violent Act Limit	\$500,000

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

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

The School District participates in the Ohio Association of School Business Officials Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 17). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. Participants in the GRP are placed on tiers according to their loss history. Participants with low loss histories are rewarded with greater savings than participants with higher loss histories. Each participant pays its workers' compensation premium to the state based on the rate for its GRP tier rather than its individual rate. Participation in the GRP is limited to School Districts that can meet the GRP's selection criteria. The firm of Sheakley UniService, Inc. provides administration, cost control, and actuarial services to the GRP.

NOTE 11 - DEFINED BENEFIT PENSION PLANS

A. School Employee 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 State statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (614) 222-5853.

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 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 \$137,534, \$126,042 and \$71,338 respectively; 49.18 percent has been contributed for fiscal year 2004 and 100 percent for fiscal years 2003 and 2002.

B. State Teachers Retirement System

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

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member lifetime contributions and earned interest matched by STRS Ohio funds which is then divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% 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

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

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 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 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 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2004, 2003, and 2002 were \$680,087, \$630,144, and \$519,314 respectively; 82.74 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 \$4,894 made by the School District and \$964 made by the plan members.

NOTE 12 - POSTEMPLOYMENT BENEFITS

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

Retirees from the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium.

By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2004, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount equaled \$49,502 for fiscal year 2004.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2004, the balance in the Fund was \$3.1 billion. For the fiscal year ended June 30, 2004, net health care costs paid by STRS Ohio were \$268,739,000 and STRS Ohio had 111,853 eligible benefit recipients.

**Martins Ferry City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004**

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. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50 percent for those who apply.

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, a decrease of .92 percent from fiscal year 2003. 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, including the surcharge, during the 2004 fiscal year equaled \$95,166.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses, before premium deduction. Gross expenses for health care at June 30, 2004, were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participants receiving health care benefits.

NOTE 13 - OTHER EMPLOYEE BENEFITS

A. Compensated Absences

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

B. Health/Life Insurance

The School District provides medical, health, and prescription card coverage for all eligible employees through the Health Plan of the Upper Ohio Valley and Health Assurance. The Health Plan is at a premium rate of \$923.39 for a family plan and \$369.35 for a single plan. The Health Assurance is at a premium rate of \$1,067.85 for a family plan and \$427.05 for a single plan. For certified and administrative employees, the Board pays 95 percent of the premiums for family and single plans. For classified employees, the Board pays 95 percent of the premiums for either of these health insurance options for all employees who work a 35 to 40 hour week. For classified employees who work less than a 35 hour work week, the Board's share of the premium is on a declining scale. The School District also provides dental and life insurance and accidental death and dismemberment insurance to all employees through Coresource at 100 percent Board paid. Life insurance is provided in the amount of \$40,000 for the Treasurer, \$25,000 for certified and administrative employees and \$20,000 for the classified employees. Dental is at a premium of \$49.99 for either the family or single plan. Vision insurance is provided through Vision Benefits of America and the Board pays 100 percent of this premium for those on the single plan only.

**Martins Ferry City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004**

C. Special Termination Benefits

It is agreed by and between the Martins Ferry City School District Board of Education and the Martins Ferry Education Association that the Martins Ferry City School District Board of Education will provide a retirement incentive of \$1,000 times each year of Martins Ferry City School service (not to exceed \$13,000) to any employee who is eligible for full retirement under any of Ohio's public employee retirement systems, provided the conditions stated in the agreement on file with the School District are met. During FY 2004, the School District paid the final payment of \$4,330 in retirement incentives for prior fiscal years' awards. In addition, the School District awarded a \$13,000 retirement incentive which will be paid over the next three fiscal years.

NOTE 14 - LONG - TERM OBLIGATIONS

The changes in the School District's long-term obligations during fiscal year 2004 were as follows:

	Principal Outstanding 6/30/03	Additions	Deductions	Principal Outstanding 6/30/04	Amounts Due Within One Year
Compensated Absences	\$949,408	\$111,514	\$103,592	\$957,330	\$15,435

Compensated absences will be paid from the General, Miscellaneous State Grants, Miscellaneous Federal Grants, Title I, Disadvantaged Pupil Impact Aid and the Food Service Funds.

NOTE 15 - JOINTLY GOVERNED ORGANIZATIONS

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

Ohio Mid-Eastern Regional Educational Service Agency - The Ohio Mid-Eastern Regional Education Service Agency (OME-RESA) was created as a regional council of governments pursuant to State statutes. OME-RESA has twelve participating counties consisting of Belmont, Carroll, Columbiana, Coshocton, Guernsey, Harrison, Holmes, Jefferson, Muskingum, Monroe, Noble, and Tuscarawas Counties. OME-RESA operates under the direction of a Board consisting of one representative from each of the participating school district's elected boards, which possesses its own budgeting and taxing authority. OME-RESA provides financial accounting services, educational management information, and cooperative purchasing services to member districts. During fiscal year 2004, the total amount paid to OME-RESA from the School District was \$31,281. The Jefferson County Educational Service Center serves as the fiscal agent and receives funding from the State Department of Education. To obtain financial information write to Ohio Mid-Eastern Regional Educational Service Agency, Karen Blake, Treasurer, at 2023 Sunset Blvd., Steubenville, Ohio 43952-1349.

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

East Central Ohio Special Education Regional Resource Center (ECO-SERRC) – The East Central Ohio Special Education Regional Resource Center is a not-for-profit Council of Governments of various school districts and other organizations in east central Ohio. The ECO-SERRC participates in services that assist the participants in complying with mandates of Public Law 101-476 and Public Law 99-457 for educating children with disabilities. There is no financial commitment made by the School District and the ECO-SERRC is not financially dependent upon the continued participation of the School District. The School District does not maintain an equity interest in or financial responsibility for the ECO-SERRC. Financial information can be obtained by contacting Julie A. Lynch, Treasurer at the Tuscarawas-Carroll-Harrison Educational Service Center, 834 E. High Avenue, New Philadelphia, Ohio 44663-3052.

NOTE 16 – RELATED ORGANIZATIONS

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

NOTE 17 – INSURANCE PURCHASING POOL

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

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

**Martins Ferry City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004**

NOTE 18 - SET-ASIDE CALCULATIONS AND FUND RESERVES

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

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

In prior years, the Board of Education expended the budget reserve amount pursuant to State Statute, and as a result no budget reserve exists at June 30, 2004.

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

	<u>Textbooks</u>	<u>Capital Improvements</u>
Set-aside Reserve Balance as of June 30, 2003	\$0	\$0
Carryover of Prior Year Balance	(1,322)	0
Current Year Set-aside Requirement	206,433	206,433
Current Year Offsets	0	(188,589)
Qualifying Disbursements	<u>(270,182)</u>	<u>(175,583)</u>
Totals	<u>(\$65,071)</u>	<u>(\$157,739)</u>
Set-aside Balance Carried Forward to Future Fiscal Years	<u>(\$65,071)</u>	<u>\$0</u>
Set-aside Reserve Balance as of June 30, 2004	<u>\$0</u>	<u>\$0</u>

The School District met the total requirements during fiscal year 2004 for both of the set-asides. The School District had qualifying disbursements during the fiscal year that reduced the textbook set-aside amount below zero. This extra amount may be used to reduce the set-aside requirement of future years. Although the School District had current year offsets and qualifying disbursements during the fiscal year that reduced the set-aside amount to below zero for the capital acquisition set-aside, this amount may not be used to reduce the set-aside requirement of future years. This negative balance is therefore not presented as being carried forward to future years.

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

NOTE 19 - STATE SCHOOL FUNDING DECISION

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

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

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

NOTE 20 - CONTINGENCIES

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2004.

B. Litigation

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

NOTE 21 - SUBSEQUENT EVENTS

On November 2, 2004 the voters of the Martins Ferry City School District passed a bond issue for the purpose of paying the local share of school construction under the State of Ohio Classroom Facilities Assistance Program; and the cost of site improvements including the extension of utilities in the principal amount of \$10,520,000 to be repaid annually over a maximum period of twenty-eight years and an annual levy of property taxes to be made outside the ten mill limitation, estimated by the County Auditor to average over the repayment period of the bond issue (5.59) mills for each one dollar of tax valuation, which amounts to (\$.559) cents for each one hundred dollars of tax valuation, commencing in 2004, first due in calendar year 2005, to pay the annual debt charges on the bonds, and to pay debt charges on any notes issued in anticipation of the bonds.

On December 21, 2004, the School District issued \$10,520,000 in School Facilities Construction and Improvement bond anticipation notes in anticipation of the issuance of bonds. The bond anticipation notes mature on June 28, 2005 at an interest rate of 3 percent.

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**MARTINS FERRY CITY SCHOOL DISTRICT
BELMONT 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	Expenditures	Noncash Expenditures
UNITED STATES DEPARTMENT OF AGRICULTURE						
<i>Passed-Through State Department of Education:</i>						
Nutrition Cluster:						
Food Donation	10.550	NA	\$	\$47,336	\$	\$47,336
School Breakfast Program	10.553	044347-05-PU-03	8,902	0	8,902	0
	10.553	044347-05-PU-04	49,091	0	49,091	0
Total School Breakfast Program			57,993	0	57,993	0
National School Lunch Program	10.555	044347-LL-P4-03	25,007	0	25,007	0
	10.555	044347-LL-P4-04	161,377	0	161,377	0
Total National School Lunch Program			186,384	0	186,384	0
Total Nutrition Cluster			244,377	47,336	244,399	47,336
<i>Direct Program:</i>						
Distance Learning and Telemedicine Loans and Grants	10.855	N/A	13,160	0	13,019	0
Total United States Department of Agriculture			257,537	47,336	257,418	47,336
UNITED STATES DEPARTMENT OF HOMELAND SECURITY						
<i>Passed-Through Ohio Department of Public Safety - Emergency Management Agency:</i>						
Public Assistance Grants	97.036	FEMA-1453-DR-013-01501	1,733	0	1,733	0
Total United States Department of Homeland Security			1,733	0	1,733	0
UNITED STATES DEPARTMENT OF EDUCATION						
<i>Passed-Through State Department of Education:</i>						
Title I Grants to Local Educational Agencies	84.010	044347-C1-S1-03	23,260	0	80,290	0
	84.010	044347-C1-S1-04	532,649	0	531,521	0
Total Title I Grants to Local Educational Agencies			555,909	0	611,811	0
Special Education, Grants to States	84.027	044347-6B-SF-02	0	0	19,638	0
	84.027	044347-6B-SF-03-P	35,006	0	40,721	0
	84.027	044347-6B-SF-04	260,594	0	251,058	0
Total Special Education, Grants to States			295,600	0	311,417	0
Safe and Drug-Free Schools and Communities, State Grants	84.186	044347-DR-S1-03	256	0	510	0
	84.186	044347-DR-S1-03	13,720	0	13,720	0
Total Safe and Drug-Free Schools and Communities, State Grants			13,976	0	14,230	0
Innovative Education Program Strategies	84.298	044347-C2-S1-03	3,905	0	4,676	0
	84.298	044347-C2-S1-04	7,287	0	4,996	0
Total Innovative Education Program Strategies			11,192	0	9,672	0
Education Technology State Grants	84.318	044347-TJ-S1-03	4,415	0	3,715	0
	84.318	044347-TJ-S1-04	11,058	0	10,302	0
Total Education Technology State Grants			15,473	0	14,017	0
Improving Teacher Quality State Grants	84.367	044347-TR-S1-03	34,147	0	20,375	0
	84.367	044347-TR-S1-04	81,691	0	88,640	0
Total Improving Teacher Quality State Grants			115,838	0	109,015	0
<i>Direct Program:</i>						
Fund for the Improvement of Education	84.215K	R215K020225	2,253	0	2,253	0
Total United States Department of Education			1,010,241	0	1,072,415	0
UNITED STATES DEPARTMENT OF HEALTH AND HUMAN SERVICES						
<i>Passed-Through Ohio Department of Mental Retardation and Developmental Disabilities:</i>						
Medical Assistance Program	93.778	N/A	63,179	0	63,179	0
Total United States Department of Health and Human Services			63,179	0	63,179	0
Total Schedule of Federal Awards Receipts and Expenditures			\$1,332,690	\$47,336	\$1,394,745	\$47,336

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

**MARTINS FERRY CITY SCHOOL DISTRICT
BELMONT COUNTY**

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

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – CHILD NUTRITION CLUSTER

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

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

NOTE C - TRANSFERS

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

<u>CFDA Number</u>	<u>Pass-through Entity Number</u>	<u>Transfers-In</u>	<u>Transfers-Out</u>
84.010	044347-C1-S1-03		\$42,768
84.010	044347-C1-S1-04	\$42,768	
84.027	044347-6B-SF-03-P		8,366
84.027	044247-6B-SF-04	8,366	
84.298	044347-C2-S1-03		<u>996</u>
84.298	044347-C2-S1-04	<u>996</u>	
Total		<u>\$52,130</u>	<u>\$52,130</u>



Auditor of State Betty Montgomery

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, the major fund and the aggregate remaining fund information of the Martins Ferry City School District, Belmont County, Ohio (the School District), as of and for the year ended June 30, 2004, which collectively comprise the School District's basic financial statements and have issued our report thereon dated February 28, 2005, wherein we noted the School District implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement 34. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School District's internal control over financial reporting to determine our auditing procedures to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the School District's management dated February 28, 2005, we reported another matter involving internal control over financial reporting.

Compliance and Other Matters

As part of reasonably assuring whether the School District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the School District's management dated February 28, 2005, we reported other matters related to noncompliance we deemed immaterial.

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

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

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

Betty Montgomery
Auditor of State

February 28, 2005



Auditor of State Betty Montgomery

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

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

To the Board of Education:

Compliance

We have audited the compliance of the Martins Ferry City School District, Belmont County, Ohio (the School District), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to the 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 the 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 the 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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Martins Ferry City School District
Belmont County
Independent Accountants' Report on Compliance with Requirements Applicable
to the Major Federal Program and Internal Control Over Compliance in
Accordance with OMB Circular A-133
Page 2

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

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

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

Betty Montgomery
Auditor of State

February 28, 2005

**MARTINS FERRY CITY SCHOOL DISTRICT
BELMONT COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 ' .505
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

1. SUMMARY OF AUDITOR'S RESULTS

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

MARTINS FERRY CITY SCHOOL DISTRICT
BELMONT COUNTY

SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 Section .505
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

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

None.

3. FINDINGS FOR FEDERAL AWARDS

None.

**MARTINS FERRY CITY SCHOOL DISTRICT
BELMONT COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDING
OMB CIRCULAR A-133 SECTION .315 (b)
JUNE 30, 2004**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding <u>No Longer Valid</u> ; Explain:
2003-001	Ohio Rev. Code Section 5705.41(B) requires no subdivision or taxing unit to expend money unless it has been appropriated. The Telecommunity Fund expenditures exceeded appropriations.	Yes	Fully Corrected.



**Auditor of State
Betty Montgomery**

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**MARTINS FERRY CITY SCHOOL DISTRICT
BELMONT COUNTY**

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 5, 2005**