



**MARTINS FERRY CITY SCHOOL DISTRICT
BELMONT COUNTY**

SINGLE AUDIT

FOR THE FISCAL YEAR ENDED JUNE 30, 2005



**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, each major fund, and the aggregate remaining fund information of the Martins Ferry City School District, Belmont County, Ohio (the School District), as of and for the year ended June 30, 2005, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Martins Ferry City School District, Belmont County, Ohio, as of June 30, 2005, and the respective changes in financial position and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 3 to the basic financial statements, the School District changed its capitalization criteria for capital assets from \$1,000 to \$5,000.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 27, 2006, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

We conducted our audit to opine on the financial statements that collectively comprise the School District's basic financial statements. The 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.



Betty Montgomery
Auditor of State

February 27, 2006

Martins Ferry City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
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, 2005. 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 2005 are as follows:

- In total, net assets increased \$26,829,555.
- General revenues accounted for \$36,346,001 in revenue or 91 percent of all revenues. Program revenues in the form of charges for services and sales; operating grants and contributions; and capital grants and contributions accounted for \$3,489,165 or 9 percent of total revenues of \$39,835,166.
- Total assets of governmental activities increased \$39,196,527 primarily due to an increase in investments and intergovernmental receivables related to the Ohio School Facilities Classroom Facilities project that was started during fiscal year 2005.
- The School District had \$13,005,611 in expenses related to governmental activities; only \$3,489,165 of these expenses were offset by program specific charges for services and sales; operating grants and contributions; and capital grants and contributions. General revenues of \$36,346,001 were adequate to provide for these programs.
- The School District's major funds are the General Fund and the Classroom Facilities Capital Projects Fund. The General Fund had \$10,074,100 in revenues and \$10,035,265 in expenditures, and the fund balance increased \$40,335. The Classroom Facilities Capital Projects Fund had \$1,814,574 in revenues and \$830,621 in expenditures, and the fund balance increased \$10,145,387 due to General Obligation Bonds that were issued to fund the local share of the project.

Using this Annual Financial Report

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

The Statement of Net Assets and Statement of Activities provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look as 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, 2005
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 2005?"; the Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

- Governmental Activities – All of the School District's programs and services are reported here including instruction, support services, operation of non-instructional services, food service operations and extracurricular activities.

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major funds begins on page 8. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multiple of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the General Fund and the Classroom Facilities Capital Projects Fund.

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

Martins Ferry City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
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 2005 compared to 2004.

Table 1
Net Assets

	Governmental Activities	
	2005	2004
Assets		
Current and Other Assets	\$43,600,342	\$5,691,682
Capital Assets	3,058,621	1,770,754
Total Assets	46,658,963	7,462,436
Liabilities		
Long-Term Liabilities	12,228,280	957,330
Other Liabilities	5,274,060	4,178,038
Total Liabilities	17,502,340	5,135,368
Net Assets		
Invested in Capital Assets Net of Debt	2,872,066	1,770,754
Restricted	26,398,769	283,826
Unrestricted (Deficit)	(114,212)	272,488
Total Net Assets	\$29,156,623	\$2,327,068

Total assets increased \$39,196,527. Current assets increased by \$37,908,660 which is due primarily to increases in investments related to the local share of the classroom facilities project and intergovernmental receivables related to the state share of the classroom facilities project. Capital assets increased \$1,287,867 due primarily to construction in progress that was recorded for the classroom facilities project as well as a construction project to replace the grandstand at the School District's stadium. The increase in capital assets was slightly offset by annual depreciation expense.

Total liabilities increased \$12,366,972. The increase is due primarily to long term liabilities for general obligation bonds that were issued for the local share of the classroom facilities project and a capital lease that was issued for the stadium project.

Restricted Net Assets increased \$26,114,943 due primarily to the state share of the classroom facilities project that will be funded by the Ohio School Facilities Commission.

Table 2 shows the changes in net assets for fiscal year 2005 compared to fiscal year 2004.

Martins Ferry City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited

Table 2
Changes in Net Assets

	Governmental Activities	
	2005	2004
Revenues		
<i>Program Revenues</i>		
Charges for Services and Sales	\$970,807	\$893,367
Operating Grants and Contributions	2,506,767	2,722,271
Capital Grants and Contributions	11,591	42,522
<i>Total Program Revenues</i>	<u>3,489,165</u>	<u>3,658,160</u>
<i>General Revenues</i>		
Property Taxes	3,160,012	2,736,999
Grants and Entitlements	32,908,531	5,536,230
Investments	265,856	30,455
Other	11,602	1,000
<i>Total General Revenues</i>	<u>36,346,001</u>	<u>8,304,684</u>
Total Revenues	<u>39,835,166</u>	<u>11,962,844</u>
Expenses		
<i>Governmental Activities:</i>		
Instruction:		
Regular	5,659,514	5,158,565
Special	1,762,023	1,708,492
Vocational	211,862	182,759
Support Services:		
Pupils	528,296	479,215
Instructional Staff	718,568	699,117
Board of Education	57,925	40,936
Administration	1,113,842	1,086,885
Fiscal	267,534	262,903
Operation and Maintenance of Plant	1,044,321	1,032,507
Pupil Transportation	534,208	445,908
Central	25,145	29,188
Operation of Non-Instructional Services	93,768	109,672
Food Service Operations	433,561	406,303
Extracurricular Activities	284,266	280,804
Interest and Fiscal Charges	270,778	0
Total Expenses	<u>13,005,611</u>	<u>11,923,254</u>
Change in Net Assets	26,829,555	39,590
Net Assets - Beginning of Year	2,327,068	2,287,478
Net Assets - End of Year	<u>\$29,156,623</u>	<u>\$2,327,068</u>

In 2005, the School District's major revenue source was grants and entitlements pertaining to the Classroom Facilities Project. The School District entered into an agreement with the Ohio School Facilities Commission that would provide in excess of \$26,000,000 from the Commission for the project. Property taxes increased slightly due to the passage of a property tax levy for the repayment of the \$10,520,000 in general obligation bonds that were issued to fund the local share of the project.

Martins Ferry City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
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Instructional programs comprise approximately 59 percent of total governmental program expenses. Of the instructional expenses, approximately 74 percent is for regular instruction, 23 percent for special instruction, and 3 percent for vocational instruction. Total expenses for the School District increased \$1,082,357 due primarily to the addition of several new positions in fiscal year 2005, salary increases in accordance with negotiated agreements as well as increased costs for interest and fiscal charges related to the issuance of debt for the classroom facilities project.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services for fiscal year 2005 compared to fiscal year 2004. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

Table 3
Governmental Activities

	<u>Total Cost of Services</u>		<u>Net Cost of Services</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Instruction:				
Regular	\$5,659,514	\$5,158,565	\$4,437,810	\$3,922,565
Special	1,762,023	1,708,492	710,841	510,627
Vocational	211,862	182,759	162,142	137,653
Support Services:				
Pupils	528,296	479,215	481,118	442,585
Instructional Staff	718,568	699,117	339,719	347,654
Board of Education	57,925	40,936	57,925	40,936
Administration	1,113,842	1,086,885	1,088,032	1,000,300
Fiscal	267,534	262,903	255,018	257,260
Operation and Maintenance of Plant	1,044,321	1,032,507	1,040,375	1,030,734
Pupil Transportation	534,208	445,908	522,617	423,445
Central	25,145	29,188	6,757	4,852
Operation of Non-Instructional Services	93,768	109,672	(1,934)	1,806
Food Service Operations	433,561	406,303	(15,562)	(24,221)
Extracurricular Activities	284,266	280,804	160,810	168,898
Interest and Fiscal Charges	270,778	0	270,778	0
Total Expenses	<u>\$13,005,611</u>	<u>\$11,923,254</u>	<u>\$9,516,446</u>	<u>\$8,265,094</u>

The dependence upon tax revenues and state subsidies for governmental activities is apparent, as 73 percent of total expenses are supported through taxes and other general revenues.

Martins Ferry City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited

The School District Funds

The School District's major funds are accounted for using the modified accrual basis of accounting. The School District's major funds are the General Fund and the Classroom Facilities Capital Projects Fund. The General Fund had \$10,074,100 in revenues and \$10,035,265 in expenditures, and the fund balance increased \$40,335. The Classroom Facilities Capital Projects Fund had \$1,814,574 in revenues and \$830,621 in expenditures, and the fund balance increased \$10,145,387 due to General Obligation Bonds that were issued to fund the local share of the project.

All governmental funds had total revenues and other financing sources of \$26,114,752 and expenditures of \$14,439,772. The net change in fund balance for the year for all governmental funds was an increase of \$11,674,980. Of the overall increase, \$10,145,387 was in the Classroom Facilities Capital Projects Fund where the construction project is being accounted for.

General Fund Budgeting Highlights

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

During the course of fiscal 2005 the School District amended its General Fund appropriations, and the budgetary statement reflects both the original and final appropriated amounts. There were no significant changes between the original and the final budget.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2005 the School District had \$3,058,621 invested in land, land improvements, buildings and improvements, construction in progress, furniture and equipment, and vehicles. See Note 10 for more detailed information of the School District's capital assets.

Debt

At June 30, 2005, the School District has \$10,520,000 in outstanding general obligation bonds that were issued for the local share of the classroom facilities project, as well as \$307,000 in outstanding capital leases related to the stadium construction project. See Note 18 for more detailed information related to the School District's debt.

Economic Factors

The School District's finances have continued to improve for the sixth straight year. The School District's 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 the General Fund's ending balance over the last six years.

Martins Ferry City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
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The School District added several new positions during the 2005 fiscal year. The School District, building on previous years, expanded the Special Education Program, added Multi-Handicapped Programs at Elm and North Schools, expanded the Developmental Handicapped Program at the High School and the English Curriculum by adding two new teachers.

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 revenue to repay the ten million five hundred twenty thousand dollars (\$10,520,000) outstanding general obligation bonds. This levy will allow for the School District to participate in the Ohio School Facilities Commission (OSFC) Classroom Facilities Assistance Program. The OSFC share of this project will be twenty six million six hundred twenty-one thousand seven hundred fifty eight dollars (\$26,621,758) at June 30. This project will allow the School District to close 5 current school buildings and house the students in two new buildings. The projected date of completion is December 2007.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, 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, 2005

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$3,927,944
Investments	10,496,295
Accrued Interest Receivable	14,918
Intergovernmental Receivable	25,085,480
Prepaid Items	19,130
Materials and Supplies Inventory	10,823
Property Taxes Receivable	3,871,867
Deferred Charges	173,885
Non-Depreciable Capital Assets	1,365,407
Depreciable Capital Assets, Net	<u>1,693,214</u>
<i>Total Assets</i>	<u>46,658,963</u>
Liabilities	
Accounts Payable	71,190
Contracts Payable	422,226
Accrued Wages and Benefits Payable	1,153,969
Intergovernmental Payable	306,043
Accrued Interest Payable	25,940
Vacation Benefits Payable	62,546
Matured Severance Payable	22,793
Special Termination Benefits Payable	21,670
Deferred Revenue	3,187,683
Long-Term Liabilities:	
Due Within One Year	155,529
Due In More Than One Year	<u>12,072,751</u>
<i>Total Liabilities</i>	<u>17,502,340</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	2,872,066
Restricted for:	
Debt Service	77,341
Capital Projects	26,114,743
Other Purposes	206,685
Unrestricted (Deficit)	<u>(114,212)</u>
<i>Total Net Assets</i>	<u><u>\$29,156,623</u></u>

See accompanying notes to the basic financial statements

Martins Ferry City School District
Statement of Activities
For the Fiscal Year Ended June 30, 2005

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities					
Instruction:					
Regular	\$5,659,514	\$682,664	\$539,040	\$0	(\$4,437,810)
Special	1,762,023	0	1,051,182	0	(710,841)
Vocational	211,862	0	49,720	0	(162,142)
Support Services:					
Pupil	528,296	0	47,178	0	(481,118)
Instructional Staff	718,568	0	378,849	0	(339,719)
Board of Education	57,925	0	0	0	(57,925)
Administration	1,113,842	0	25,810	0	(1,088,032)
Fiscal	267,534	0	12,516	0	(255,018)
Operation and Maintenance of Plant	1,044,321	0	3,946	0	(1,040,375)
Pupil Transportation	534,208	0	0	11,591	(522,617)
Central	25,145	0	18,388	0	(6,757)
Operation of Non-Instructional Services	93,768	0	95,702	0	1,934
Food Service Operations	433,561	164,687	284,436	0	15,562
Extracurricular Activities	284,266	123,456	0	0	(160,810)
Interest and Fiscal Charges	270,778	0	0	0	(270,778)
<i>Total Governmental Activities</i>	<u>\$13,005,611</u>	<u>\$970,807</u>	<u>\$2,506,767</u>	<u>\$11,591</u>	<u>(9,516,446)</u>

General Revenues

Property Taxes Levied for General Purposes	2,590,943
Property Taxes Levied for Capital Outlay	161,362
Property Taxes Levied for Debt Service	398,536
Property Taxes Levied for Building Maintenance	9,171
Grants and Entitlements not Restricted to Specific Programs	6,286,773
Gifts and Donations	8,237
Investment Earnings	265,856
Grants and Entitlements - Classroom Facilities	26,621,758
Gain on Sale of Capital Assets	1,500
Miscellaneous	1,865
<i>Total General Revenues</i>	<u>36,346,001</u>
Change in Net Assets	26,829,555
<i>Net Assets Beginning of Year - Restated See Note 3</i>	<u>2,327,068</u>
<i>Net Assets End of Year</i>	<u>\$29,156,623</u>

See accompanying notes to the basic financial statements

Martins Ferry City School District
 Balance Sheet
 Governmental Funds
 June 30, 2005

	General	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$1,969,461	\$1,239,484	\$718,999	\$3,927,944
Investments	0	8,905,903	1,590,392	10,496,295
Receivables:				
Property Taxes	3,003,492	0	868,375	3,871,867
Intergovernmental	62,633	24,916,840	106,007	25,085,480
Interfund	5,000	0	0	5,000
Accrued Interest	14,918	0	0	14,918
Prepaid Items	19,130	0	0	19,130
Materials and Supplies Inventory	908	0	9,915	10,823
<i>Total Assets</i>	<u>\$5,075,542</u>	<u>\$35,062,227</u>	<u>\$3,293,688</u>	<u>\$43,431,457</u>
Liabilities and Fund Balances				
Liabilities				
Accounts Payable	50,111	0	21,079	71,190
Contracts Payable	0	0	422,226	422,226
Accrued Wages and Benefits	928,404	0	225,565	1,153,969
Interfund Payable	0	0	5,000	5,000
Intergovernmental Payable	245,233	0	60,810	306,043
Matured Severance Payable	22,793	0	0	22,793
Special Termination Benefits Payable	21,670	0	0	21,670
Deferred Revenue	2,872,723	24,916,840	825,886	28,615,449
<i>Total Liabilities</i>	<u>4,140,934</u>	<u>24,916,840</u>	<u>1,560,566</u>	<u>30,618,340</u>
Fund Balances				
Reserved for Encumbrances	22,526	742,761	79,108	844,395
Reserved for Property Taxes	175,802	0	51,838	227,640
Unreserved, Undesignated, Reported in:				
General Fund	736,280	0	0	736,280
Special Revenue Funds	0	0	92,259	92,259
Debt Service Fund	0	0	319,239	319,239
Capital Projects Funds	0	9,402,626	1,190,678	10,593,304
<i>Total Fund Balances</i>	<u>934,608</u>	<u>10,145,387</u>	<u>1,733,122</u>	<u>12,813,117</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$5,075,542</u>	<u>\$35,062,227</u>	<u>\$3,293,688</u>	<u>\$43,431,457</u>

See accompanying notes to the basic financial statements

Martins Ferry City School District
 Reconciliation of Total Governmental Fund Balances
 to Net Assets of Governmental Activities
 June 30, 2005

Total Governmental Fund Balances \$12,813,117

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. 3,058,621

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

Grants	24,943,420
Interest	14,918
Tuition and Fees	12,884
Property Taxes	<u>456,544</u>

Total 25,427,766

Unamortized issuance costs represent deferred charges which do not provide current financial resources and therefore are not reported in the funds. 173,885

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

General Obligation Bonds	10,520,000
Premium	352,101
Compensated Absences	1,049,179
Vacation Benefits Payable	62,546
Accrued Interest Payable	25,940
Capital Leases	<u>307,000</u>

Total (12,316,766)

Net Assets of Governmental Activities \$29,156,623

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, 2005

	General	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
Revenues				
Property Taxes	\$2,561,793	\$0	\$466,742	\$3,028,535
Intergovernmental	6,797,291	1,704,918	2,181,272	10,683,481
Interest	45,234	109,656	96,048	250,938
Tuition and Fees	669,780	0	0	669,780
Extracurricular Activities	0	0	123,456	123,456
Contributions and Donations	0	0	8,237	8,237
Charges for Services	0	0	164,687	164,687
Miscellaneous	2	0	1,863	1,865
<i>Total Revenues</i>	<u>10,074,100</u>	<u>1,814,574</u>	<u>3,042,305</u>	<u>14,930,979</u>
Expenditures				
Current:				
Instruction:				
Regular	4,846,187	0	599,282	5,445,469
Special	1,061,397	0	683,270	1,744,667
Vocational	202,241	0	5,000	207,241
Support Services:				
Pupil	478,538	0	54,526	533,064
Instructional Staff	320,330	0	413,414	733,744
Board of Education	57,925	0	0	57,925
Administration	1,053,523	0	54,560	1,108,083
Fiscal	256,043	0	13,812	269,855
Operation and Maintenance of Plant	1,063,304	0	21,557	1,084,861
Pupil Transportation	460,993	0	5,545	466,538
Central	6,508	0	15,531	22,039
Operation of Non-Instructional Services	0	0	92,156	92,156
Food Service Operations	0	0	455,685	455,685
Extracurricular Activities	171,223	0	115,618	286,841
Capital Outlay	55,700	680,360	773,649	1,509,709
Debt Service:				
Interest and Fiscal Charges	1,353	150,261	94,829	246,443
Issuance Costs	0	0	175,452	175,452
<i>Total Expenditures</i>	<u>10,035,265</u>	<u>830,621</u>	<u>3,573,886</u>	<u>14,439,772</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>38,835</u>	<u>983,953</u>	<u>(531,581)</u>	<u>491,207</u>
Other Financing Sources				
General Obligation Bonds Issued	0	9,020,448	1,499,552	10,520,000
Sale of Capital Assets	1,500	0	0	1,500
Premium on Debt Issuance	0	140,986	214,287	355,273
Inception of Capital Lease	0	0	307,000	307,000
<i>Total Other Financing Sources</i>	<u>1,500</u>	<u>9,161,434</u>	<u>2,020,839</u>	<u>11,183,773</u>
<i>Net Change in Fund Balances</i>	40,335	10,145,387	1,489,258	11,674,980
<i>Fund Balances Beginning of Year</i>	<u>894,273</u>	<u>0</u>	<u>243,864</u>	<u>1,138,137</u>
<i>Fund Balances End of Year</i>	<u>\$934,608</u>	<u>\$10,145,387</u>	<u>\$1,733,122</u>	<u>\$12,813,117</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, 2005

Net Change in Fund Balances - Total Governmental Funds \$11,674,980

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 Asset Additions	1,539,936	
Current Year Depreciation	(252,069)	
Total	1,287,867	1,287,867

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

Grants	24,743,408	
Interest	14,918	
Tuition and Fees	12,884	
Property Taxes	131,477	
Total	24,902,687	24,902,687

Interest is reported as an expenditure when due in the governmental funds, but is accrued on outstanding debt on the statement of activities. (25,940)

General obligation bonds issued and bond premiums are other financing sources in governmental funds, but the issuance increases long-term liabilities on the statement of net assets.

General Obligation Bonds Issued	(10,520,000)	
Premium on Bonds Issued	(355,273)	
Total	(10,875,273)	(10,875,273)

Bond Issuance costs are debt service expenditures in governmental funds, but are reported as deferred charges assets on the statement of activities. 175,452

Issuance costs are reported as an expenditure when paid in governmental funds, but are allocated as an expense over the life of the outstanding debt on the statement of activities. (1,567)

Bond premiums are reported as other financing sources in the governmental funds, but are allocated as an expense over the life of the bonds on the statement of activities. 3,172

Inception of capital leases are reported as other financing sources in the governmental funds, but the inception increases long term liabilities on the statement of activities. (307,000)

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

Intergovernmental Payable	92,644	
Vacation Benefits Payable	(5,618)	
Compensated Absences Payable	(91,849)	
Total	(4,823)	(4,823)

Changes in Net Assets of Governmental Activities \$26,829,555

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, 2005

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Property Taxes	\$2,610,000	\$2,610,000	\$2,507,237	(\$102,763)
Intergovernmental	5,601,800	5,601,800	6,797,344	1,195,544
Interest	40,000	40,000	39,977	(23)
Tuition and Fees	566,000	566,000	669,780	103,780
Charges for Services	2,000	2,000	0	(2,000)
Miscellaneous	1,000	1,000	2	(998)
<i>Total Revenues</i>	<u>8,820,800</u>	<u>8,820,800</u>	<u>10,014,340</u>	<u>1,193,540</u>
Expenditures				
Current:				
Instruction:				
Regular	4,837,800	4,828,550	4,819,447	9,103
Special	969,600	1,083,700	1,068,143	15,557
Vocational	196,700	203,700	202,220	1,480
Support Services:				
Pupils	486,300	473,600	468,275	5,325
Instructional Staff	337,100	335,250	327,523	7,727
Board of Education	47,700	55,600	55,114	486
Administration	1,003,800	1,006,600	1,003,432	3,168
Fiscal	265,300	248,500	244,353	4,147
Operation and Maintenance of Plant	997,000	1,023,600	1,008,983	14,617
Pupil Transportation	443,200	454,700	449,522	5,178
Central	7,520	7,600	6,500	1,100
Extracurricular Activities	184,100	176,500	168,305	8,195
Capital Outlay	52,800	55,800	55,700	100
Debt Service:				
Interest and Fiscal Charges	3,000	3,000	1,353	1,647
<i>Total Expenditures</i>	<u>9,831,920</u>	<u>9,956,700</u>	<u>9,878,870</u>	<u>77,830</u>
Excess of Revenues Over (Under) Expenditures	<u>(1,011,120)</u>	<u>(1,135,900)</u>	<u>135,470</u>	<u>1,271,370</u>
Other Financing Sources (Uses)				
Sale of Capital Assets	1,000	1,000	1,500	500
Advances In	20,000	20,000	20,000	0
Advances Out	(10,000)	(5,000)	(5,000)	0
<i>Total Other Financing Sources (Uses)</i>	<u>11,000</u>	<u>16,000</u>	<u>16,500</u>	<u>500</u>
<i>Net Change in Fund Balance</i>	<u>(1,000,120)</u>	<u>(1,119,900)</u>	<u>151,970</u>	<u>1,271,870</u>
<i>Fund Balance Beginning of Year</i>	1,771,684	1,771,684	1,771,684	0
Prior Year Encumbrances Appropriated	8,733	8,733	8,733	0
<i>Fund Balance End of Year</i>	<u>\$780,297</u>	<u>\$660,517</u>	<u>\$1,932,387</u>	<u>\$1,271,870</u>

See accompanying notes to the basic financial statements

Martins Ferry City School District
Statement of Fiduciary Net Assets
Fiduciary Fund
June 30, 2005

	<u>Agency</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$17,856</u>
<i>Total Assets</i>	<u><u>\$17,856</u></u>
Liabilities	
Due to Students	<u>\$17,856</u>
<i>Total Liabilities</i>	<u><u>\$17,856</u></u>

See accompanying notes to the basic financial statements

Martins Ferry City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

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 68 non-certified employees, 107 certified full-time teaching personnel and 8 administrative employees, who provide services to 1,572 students and other community members. The School District currently operates 6 instructional/support buildings.

Reporting Entity:

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

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

The following activities are included within the reporting entity:

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

The School District is involved with four jointly governed organizations, one related organization, and two insurance purchasing pools. These organizations are the Belmont-Harrison Vocational School District, the Ohio Mid-Eastern Regional Educational Service Agency (OME-RESA), the East Central Ohio Special Education Regional Resource Center (ECO-SERRC), the Coalition of Rural and Appalachian Schools (CORAS), the Martins Ferry Public Library, the Ohio Association of School Business Officials Workers' Compensation Group Rating Program (GRP) and the Ohio School Plan which are presented in Notes 19, 20, and 21.

Martins Ferry City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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

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

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

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

B. Fund Accounting

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

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

Martins Ferry City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

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

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

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

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

C. Measurement Focus

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

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

D. Basis of Accounting

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

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

Martins Ferry City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

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 7). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

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

Property taxes for which there is an enforceable legal claim as of June 30, 2005, but which were levied to finance fiscal year 2006 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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

E. Cash and Cash Equivalents

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

During fiscal year 2005, investments were limited to non-negotiable certificates of deposit, and Federal Home Loan Bank Bonds and Notes, Federal Farm Credit Bank Bonds, Federal Home Loan Mortgage Corporation Notes, Federal National Mortgage Association Notes, and Money Market Mutual Funds. Investments are reported at fair value. Fair value is based on quoted market price or current share price.

Following Ohio statues, the Board of Education has, by resolution, specified the fund to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2005 amounted to \$45,234, which includes \$5,930 assigned from other School District funds.

Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are presented on the financial statements as cash and cash equivalents.

Martins Ferry City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

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, 2005, 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 \$5,000. The School District currently only capitalizes land, land improvements, buildings and improvements, construction in progress, furniture and equipment and vehicles. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

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

Martins Ferry City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

J. Interfund Balances

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

K. Compensated Absences

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

Sick leave benefits are accrued as a liability using the 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.

M. Bond Premiums and Issuance Costs

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

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

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

N. Interfund Activity

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

Martins Ferry City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

O. Fund Balance Reserves

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

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

P. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation 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 of local, state, and federal grants restricted to expenditures for specific purposes. The government-wide statement of net assets reports \$26,398,769 of restricted net assets. Of the restricted net assets, \$78,004 has resulted from enabling legislation.

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

Q. Extraordinary and Special Items

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

R. Estimates

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

S. Budgetary Data

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

Martins Ferry City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

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

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

NOTE 3 – CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENTS

Changes in Accounting Principle For the fiscal year ended June 30, 2005, the School District has implemented GASB Statement No. 40, “Deposit and Investment Risk Disclosures”, and GASB Technical Bulletin No. 2004-02, “Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost Sharing Employers”, and early-implemented GASB Statement No. 46, “Net Assets Restricted by Enabling Legislation”.

GASB Statement No. 40 modifies the disclosures for deposits and investments. See Note 6 “Deposits and Investments” for the required disclosures.

GASB Technical Bulletin No. 2004-02 addresses the amount that should be recognized as an expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other postemployment benefit (OPEB) plans. The implementation had no material effect on the financial statements.

GASB Statement No. 46 clarifies how legal enforceability should be applied for determining restricted net assets, and had no material effect on the financial statements.

Restatement of Net Assets The School District increased the capital asset capitalization threshold from \$1,000 to \$5,000 during fiscal year 2005. The restatement had the following effect on net assets of the governmental activities.

	Governmental Activities
Net Assets, June 30, 2004	\$2,682,967
Capital Asset Threshold Restatement	(355,899)
Restated Net Assets, June 30, 2004	\$2,327,068

Martins Ferry City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 4 – FUND DEFICITS

Fund Deficits:

At June 30, 2005, the following funds had deficit fund balances:

	Deficit Fund Balances
Disadvantaged Pupil Impact Aid Fund	\$109,776
Title I Fund	2,728
Permanent Improvement Fund	256,544
Total	<u>\$369,048</u>

The deficit in the Disadvantaged Pupil Impact Aid Fund and Title I Fund was created by the application of generally accepted accounting principles. The primary cause of the deficit balance is liabilities for accrued wages and benefits and intergovernmental payables. The deficit in the Permanent Improvement Capital Projects Fund was due to accrued liabilities for contracts payable on the Stadium project that will be rolled into long-term financing. See Subsequent Event Note 24 for further details.

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING

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

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).
4. Advances in and advances out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).
5. Unrecorded cash and unrecorded interest are reported on the balance sheet (GAAP basis), but not on the budgetary basis. The reconciled difference between the beginning and end of the year is reflected in the following tables as unrecorded cash.

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

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Net Change in Fund Balance

GAAP Basis	\$40,335
Revenue Accruals	(54,503)
Advances In	20,000
Unrecorded Cash	(5,257)
Expenditure Accruals	188,212
Advances Out	(5,000)
Encumbrances	<u>(31,817)</u>
Budget Basis	<u><u>\$151,970</u></u>

NOTE 6 – DEPOSITS AND INVESTMENTS

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

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

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

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

Interim monies held by the School District can be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;

Martins Ferry City School District
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For the Fiscal Year Ended June 30, 2005

4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAROhio).
8. Commercial paper and bankers acceptances if training requirements have been met.

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

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, \$3,775,792 of the School District's bank balance of \$3,975,792 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although all statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the School District to a successful claim by FDIC.

The School District has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the School District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

Investments

As of June 30, 2005, the School District had the following investments:

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	Fair Value	Maturity	Percent of Total Investments	Rating	Rating Agency
Mutual Funds	\$136,699	N/A	1.30%	AAAm	Moody's
Federal Home Loan Bank - Bonds	998,750	5/24/06	9.52%	AAA	Moody's
Federal Farm Credit Bank - Bonds	747,690	2/22/07	7.12%	AAA	Moody's
Federal Home Loan Bank - Notes	498,850	7/27/05	4.75%	AAA	Moody's
Federal Home Loan Mortgage Corporation - Notes	987,000	11/15/05	9.40%	AAA	Moody's
Federal Home Loan Mortgage Corporation - Notes	1,630,784	12/30/05	15.54%	AAA	Moody's
Federal Home Loan Mortgage Corporation - Notes	1,901,640	3/7/06	18.12%	AAA	Moody's
Federal Home Loan Mortgage Corporation - Notes	722,400	6/27/06	6.88%	AAA	Moody's
Federal National Mortgage Association - Notes	1,202,952	7/20/05	11.46%	AAA	Moody's
Federal National Mortgage Association - Notes	1,181,280	12/9/05	11.26%	AAA	Moody's
Federal National Mortgage Association - Notes	488,250	2/24/06	4.65%	AAA	Moody's
Totals	<u><u>\$10,496,295</u></u>		<u><u>100.00%</u></u>		

Interest Rate Risk. Interest rate risk arises because potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The School District's investment policy addresses interest rate risk to the extent that it allows the Treasurer to invest funds to a maximum maturity of five years, and allows for the withdrawal of funds from approved public depositories or sale of negotiable instruments prior to maturity.

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

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

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

Martins Ferry City School District
Notes to the Basic Financial Statements
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NOTE 7 - PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the school district. Real property tax revenue received in calendar 2005 represents collections of calendar year 2004 taxes. Real property taxes received in calendar year 2005 were levied after April 1, 2004, on the assessed value listed as of January 1, 2004, 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 2005 represents collections of calendar year 2004 taxes. Public utility real and tangible personal property taxes received in calendar year 2005 became a lien December 31, 2002, were levied after April 1, 2004 and are collected in 2005 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2005 (other than public utility property) represents the collection of 2005 taxes. Tangible personal property taxes received in calendar year 2005 were levied after April 1, 2004, on the value as of December 31, 2004. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-three 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, 2005, are available to finance fiscal year 2005 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, 2005 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, 2005, was \$175,802 in the General Fund, \$40,659 in the Debt Service Fund, and \$11,179 in the Permanent Improvement Fund. 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.

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.

Martins Ferry City School District
Notes to the Basic Financial Statements
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The assessed values upon which the fiscal year 2005 taxes were collected are:

	<u>2004 Second Half Collections</u>		<u>2005 First Half Collections</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential And Other Real Estate	\$88,427,930	74.7%	\$91,862,260	78.2%
Public Utility Personal	23,600,330	19.9%	18,925,530	16.1%
Tangible Personal	<u>6,412,230</u>	<u>5.4%</u>	<u>6,643,010</u>	<u>5.7%</u>
	<u><u>\$118,440,490</u></u>	<u><u>100.0%</u></u>	<u><u>\$117,430,800</u></u>	<u><u>100.0%</u></u>
Tax Rate per \$1,000 of assessed valuation		\$37.50		\$43.09

NOTE 8 - RECEIVABLES

Receivables at June 30, 2005, 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. All receivables are expected to be collected within one year. A summary of the principal items of intergovernmental receivables follows:

<u>Governmental Activities:</u>	<u>Amounts</u>
Ohio School Facilities Grant	\$24,916,840
CAFS	49,749
Title I	37,801
Title II-A	24,106
Distant Learning Tech	18,650
Drug Free School	1,425
Title V	219
Part B - IDEA	23,806
Excess Costs	<u>12,884</u>
Total Intergovernmental Receivables	<u><u>\$25,085,480</u></u>

NOTE 9 – INTERNAL BALANCES

Interfund balances at June 30, 2005 consist of the following individual interfund receivables and payables:

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

The loan to the Distant Learning Grant Special Revenue Fund was made to support the programs until federal grant monies are received.

Martins Ferry City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 10 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2005, was as follows:

	Balance 6/30/04	Additions	Deletions	Balance 6/30/05
Nondepreciable Capital Assets:				
Land	\$14,582	\$0	\$0	\$14,582
Construction in Progress	0	1,350,825	0	1,350,825
Total Nondepreciable Capital Assets	14,582	1,350,825	0	1,365,407
Depreciable Capital Assets:				
Land Improvements	269,349	0	0	269,349
Buildings and Improvements	2,559,809	41,364	43,165	2,558,008
Furniture and Equipment	1,554,270	92,862	0	1,647,132
Vehicles	826,614	54,885	72,132	809,367
Total Depreciable Capital Assets	5,210,042	189,111	115,297	5,283,856
Accumulated Depreciation:				
Land Improvements	(208,154)	(4,187)	0	(212,341)
Buildings and Improvements	(1,684,768)	(29,095)	(43,165)	(1,670,698)
Furniture and Equipment	(944,786)	(154,534)	0	(1,099,320)
Vehicles	(616,162)	(64,253)	(72,132)	(608,283)
Total Accumulated Depreciation	(3,453,870)	(252,069)	(115,297)	(3,590,642)
Total Depreciable Capital Assets, Net	1,756,172	(62,958)	0	1,693,214
Governmental Capital Assets, Net	\$1,770,754	\$1,287,867	\$0	\$3,058,621

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$161,760
Special	3,754
Vocational	2,578
Support Services:	
Pupils	563
Instructional Staff	1,877
Administration	2,893
Fiscal	375
Operation and Maintenance of Plant	7,334
Pupil Transportation	62,672
Food Service Operations	5,046
Operation on Non-Instructional Services	1,612
Extracurricular Activities	1,605
Total Depreciation Expense	\$252,069

Martins Ferry City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 11- RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2005 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)	\$29,278,057
Boiler and Machinery - (\$500 deductible)	100,000
Flood Insurance - Building and Contents (\$5,000 deductible)	193,600
Automotive Liability	2,000,000
Uninsured Motorists	1,000,000
Underinsured Motorists	1,000,000

During fiscal year 2005, 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 21). 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 - Any One Person Limit	10,000
Medical Expense - Any One Accident Limit	10,000
Employee Benefits Liability Coverage Endorsement:	
Each Occurance	1,000,000
Aggregate Limit	3,000,000
Employers Liability - Stop Gap Coverage Endorsement:	
Each Occurance	1,000,000
Disease - Each Employee	1,000,000
Legal Liability:	
Errors and Omissions - Each Occurrence (\$2,500 Deductible)	1,000,000
Errors and Omissions - Aggregate Limit (\$2,500 Deductible)	2,000,000
Excess Liability:	
Each Occurance	1,000,000
Aggregate Limit	1,000,000
Violence:	
Each Occurance	1,000,000
Aggregate Limit	1,000,000

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

The School District participates in the Ohio Association of School Business Officials Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 21). 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 12 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476 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 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 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 statutory maximum amounts, by the SERS Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$161,418, \$137,534, and \$126,042, respectively; 47.42 percent has been contributed for fiscal year 2005 and 100 percent for the fiscal years 2004 and 2003.

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 contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer

Martins Ferry City School District
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contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before 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, 2005, 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. Contribution rates are established by the State Teachers Retirement Board, upon recommendation 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, 2005, 2004, and 2003 were \$731,864, \$680,087, and \$630,144, respectively; 77.81 percent has been contributed for fiscal year 2005 and 100 percent for the fiscal years 2004 and 2003. Contributions to the DC and Combined Plans for fiscal year 2005 were \$25 made by the School District and \$649 made by the plan members.

NOTE 13 - POSTEMPLOYMENT BENEFITS

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

STRS retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2005, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$52,866 for fiscal year 2005.

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

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. Premiums may be reduced for retirees whose household income falls below the poverty level.

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, 2005, employer contributions to fund health care benefits were 3.43 percent of covered payroll, a decrease of 1.48 percent from fiscal year 2004. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay was established at \$27,400. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the fiscal year 2005, the School District paid \$73,325 to fund health care benefits, including the surcharge.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2004, (the latest information available), 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 currently receiving health care benefits.

NOTE 14 - OTHER EMPLOYEE BENEFITS

A. Compensated Absences

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

B. Health/Life Insurance

The School District provides medical, health, and prescription card coverage for all eligible employees through the Health Plan and Health Assurance. The Health Plan is at a premium rate of \$1,032.51 for a family plan and \$413.00 for a single plan. The Health Assurance is at a premium rate of \$1,163.95 for a family plan and \$465.48 for a single plan. The Board pays 95 percent of the premiums for either of these health insurance options for all employees who work a 35 to 40 hour week. Employees who work less than a 35 hour work week the Board's share of the premium is on a declining scale. The School District also provides dental and life insurance and accidental death and dismemberment insurance to all employees through Coresource at 100 percent Board paid. Life insurance is provided in the amount of \$40,000 for the treasurer, \$25,000 for certified and administrative employees and \$20,000 for the classified employees. Dental is at a premium of \$49.99 for either the family or single plan. Vision insurance is provided through Vision Benefits of America and the Board pays 100 percent of this premium for those on the single plan only.

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Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

C. Special Termination Benefits

As part of the negotiated agreement between the Martins Ferry City School District Board of Education and the Martins Ferry Education Association, the Martins Ferry City School District Board of Education will provide a retirement incentive of \$1,000 times each year of Martins Ferry City School service (not to exceed \$13,000) to any teaching employee who is eligible for full retirement under any of Ohio's public employee retirement systems, provided the conditions stated in the agreement on file with the School District are met. During fiscal year 2005 the District paid \$4,330 in retirement incentives for prior fiscal years awards. In addition, the District awarded a \$13,000 retirement incentive which will be paid over the next three fiscal years.

NOTE 15 - CAPITAL LEASES - LESSEE DISCLOSURE

During fiscal year 2005, the School District entered into a capital lease to finance the construction of a new grandstand facility at the stadium. The lease arrangements are through the OASBO Expanded Asset Pooled Financing Program with the Columbus Regional Airport Authority as the lessor. During fiscal year 2005, construction began on the stadium project and \$307,000 was drawn from the total approved lease amount of \$1,107,000. See Subsequent Event Note 24 for further details.

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

The asset acquired by lease has been capitalized in government wide statements governmental activities as construction in progress in the amount of \$670,252, which is equal to the present value of the minimum lease payments at the time of acquisition and the contracts payable on the project at June 30, 2005 that will eventually be drawn down as part of the capital lease liability in fiscal year 2006. A corresponding liability was recorded in the government wide statements governmental activities for the portion that was drawn down during fiscal year 2005. The assets acquired by governmental activities were not depreciated during fiscal year 2005, as the asset was reported as construction in progress and was not substantially complete. There were no principal payments in fiscal year 2005. Future minimum lease payments through 2021 are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2006	\$0	\$6,526	\$6,526
2007	15,000	12,663	27,663
2008	16,000	12,008	28,008
2009	16,000	11,331	27,331
2010	17,000	10,633	27,633
2011-2015	96,000	41,562	137,562
2016-2020	120,000	18,815	138,815
2021	27,000	570	27,570
Total	<u>\$307,000</u>	<u>\$114,108</u>	<u>\$421,108</u>

Martins Ferry City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 16 – CONSTRUCTION COMMITMENTS

As of June 30, 2005, the School District had contractual purchase commitments for the classroom facilities and stadium projects. The amount for each contractor is as follows:

Contractor	Fund	Purchased Commitments	Amounts Paid as of June 30, 2005	Amounts Remaining on Contracts
MKC Associates	OSFC Buildings	\$1,928,182	\$636,300	\$1,291,882
Dave York Sports, Inc.	PI-Stadium-General	371,540	14,000	357,540
Catrell Companies Inc.	PI-Stadium-General	191,613	178,613	13,000
Total		<u>\$2,491,335</u>	<u>\$828,913</u>	<u>\$1,662,422</u>

NOTE 17 – NOTES PAYABLE

During fiscal year 2005, the School District issued \$10,520,000 of Bond Anticipation Notes at a 3 percent interest rate to fund the local share of the construction of the Classroom Facilities Project. These notes were fully repaid in fiscal year 2005 through the issuance of General Obligation Bonds in the amount of \$10,520,000.

NOTE 18 - LONG - TERM OBLIGATIONS

The changes in the School District's long-term obligations during fiscal year 2005 were as follows:

	Principal Outstanding 6/30/04	Additions	Deductions	Principal Outstanding 6/30/05	Amounts Due In One Year
<i>2005 School Construction and Improvement General Obligation Bonds</i>					
Serial Bonds, \$4,940,000 @ 3.0%-5.0%	\$0	\$4,940,000	\$0	\$4,940,000	\$140,000
Term Bonds, \$5,580,000 @ 5.0%	0	5,580,000	0	5,580,000	0
Premium, \$355,273	0	355,273	3,172	352,101	0
Total Bonds and Loans	<u>0</u>	<u>10,875,273</u>	<u>3,172</u>	<u>10,872,101</u>	<u>140,000</u>
Capital Leases	0	307,000	0	307,000	0
Compensated Absences	957,330	122,210	30,361	1,049,179	15,529
Total General Long-Term Obligations	<u>\$957,330</u>	<u>\$11,304,483</u>	<u>\$33,533</u>	<u>\$12,228,280</u>	<u>\$155,529</u>

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

2005 School Construction and Improvement General Obligation Bonds - On March 31, 2005, the School District issued \$10,520,000 in voted general obligation bonds which included serial and term bonds to pay the local share of the school construction under the State of Ohio Classroom Facilities Assistance Program (approximately 86% of the total of the bonds), as well as a portion of the project that will not be covered under the Classroom Facilities Assistance Program that is the Local Fund Initiative (approximately 14% of the total of the bonds). The bonds were issued for a twenty-eight year period with a final maturity at December 1, 2032. Principal outstanding at June 30, 2005 amounted to \$10,520,000.

Martins Ferry City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

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

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

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

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

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

<u>Date</u>	<u>Principal Amount to be Redeemed</u>
2018	<u><u>\$295,000</u></u>

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

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

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

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

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

Martins Ferry City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

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

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

Optional Redemption

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

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

Principal and interest requirements to retire the general obligation bonds outstanding at June 30, 2005 are as follows:

<u>Fiscal Year Ending June 30, 2005</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$140,000	\$494,715	\$634,715
2007	135,000	490,590	625,590
2008	155,000	486,240	641,240
2009	155,000	481,590	636,590
2010	155,000	476,824	631,824
2011-2015	970,000	2,288,946	3,258,946
2016-2020	1,400,000	2,039,900	3,439,900
2021-2025	2,075,000	1,608,375	3,683,375
2026-2030	2,995,000	979,625	3,974,625
2031-2033	2,340,000	181,000	2,521,000
Total	<u>\$10,520,000</u>	<u>\$9,527,805</u>	<u>\$20,047,805</u>

The School District's overall legal debt margin was \$408,670, with an unvoted debt margin of \$117,431, at June 30, 2005.

NOTE 19 - JOINTLY GOVERNED ORGANIZATIONS

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

Martins Ferry City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

Ohio Mid-Eastern Regional Educational Service Agency (OME-RESA) - The Ohio Mid-Eastern Regional Educational Service Agency (OME-RESA) was created as a regional council of governments pursuant to State statutes. OME-RESA has twelve participating counties consisting of Belmont, Carroll, Columbiana, Coshocton, Guernsey, Harrison, Holmes, Jefferson, Muskingum, Monroe, Noble, and Tuscarawas Counties. OME-RESA operates under the direction of a Board consisting of one representative from each of the participating school district's elected boards, which possesses its own budgeting and taxing authority. OME-RESA provides financial accounting services, educational management information, and cooperative purchasing services to member districts. During fiscal year 2005, the total amount paid to OME-RESA from the School District was \$34,128. 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.

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.

Coalition of Rural and Appalachian Schools (CORAS) - The Coalition of Rural and Appalachian Schools is a jointly governed organization including over 100 school districts in southeastern Ohio. The Coalition is operated by a Board which is comprised of seventeen members. The board members are comprised of one superintendent from each county elected by the school districts within that county. The Council provides various in-service for school district administrative personnel; gathers data regarding conditions of education in the region; cooperates with other professional groups to assess and develop programs designed to meet the needs of member districts; and provides staff development programs for school district personnel. The Council is not dependent on the continued participation of the School District and the School District does not maintain an equity interest in or financial responsibility for the Council. The School District's membership fee was \$300 for fiscal year 2005.

NOTE 20 – 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.

Martins Ferry City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 21 – 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.

NOTE 22 - 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, 2005.

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.

Martins Ferry City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

	<u>Textbooks</u>	<u>Capital Improvements</u>
Set-aside Reserve Balance as of June 30, 2004	\$0	\$0
Current Year Set-aside Requirement	217,685	217,685
Current Year Offsets	0	(181,504)
Qualifying Disbursements	<u>(348,087)</u>	<u>(253,305)</u>
Totals	<u>(\$130,402)</u>	<u>(\$217,124)</u>
Allowable Carry Forward for Fiscal Year 2005	(130,402)	(386,130)
Allowable Carry Forward at June 30, 2004	(65,071)	0
Set-aside Balance Carried Forward to Future Fiscal Years	<u>(\$195,473)</u>	<u>(\$386,130)</u>
Set-aside Reserve Balance as of June 30, 2005	<u>\$0</u>	<u>\$0</u>

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

NOTE 23 - 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, 2005.

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 24 - SUBSEQUENT EVENTS

During fiscal year 2005, the School District entered into a capital lease to finance the construction of a new grandstand facility at the stadium. The lease arrangements are through the OASBO Expanded Asset Pooled Financing Program with the Columbus Regional Airport Authority as the lessor. During fiscal year 2005, construction began on the stadium project and \$307,000 was drawn from the total approved lease amount of \$1,107,000. As of the date of this financial report the remaining \$800,000 of the lease has been drawn down leaving the School District with an outstanding capital lease liability of \$1,107,000.

MARTINS FERRY CITY SCHOOL DISTRICT
BELMONT COUNTY

SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2005

FEDERAL GRANTOR Pass-Through Grantor Program Title	Pass-through Entity Number	Federal CFDA Number	Receipts	Noncash Receipts	Expenditures	Noncash Expenditures
U.S. DEPARTMENT OF AGRICULTURE						
<i>Passed-Through State Department of Education:</i>						
Nutrition Cluster:						
Food Donation	NA	10.550	\$0	\$24,516	\$0	\$24,516
School Breakfast Program	044347-05-PU-04	10.553	8,749	0	8,749	0
	044347-05-PU-05	10.553	58,205	0	58,205	0
Total School Breakfast Program			66,954	0	66,954	0
National School Lunch Program	044347-LL-P4-04	10.555	26,553	0	26,553	0
	044347-LL-P4-05	10.555	176,477	0	176,477	0
Total National School Lunch Program			203,030	0	203,030	0
Total Nutrition Cluster			269,984	24,516	269,984	24,516
<i>Direct Program</i>						
Distance Learning and Telemedicine Loans and Grants	OH-706-A16	10.855	28,590	0	30,160	0
Total U.S. Department of Agriculture			298,574	24,516	300,144	24,516
U.S. DEPARTMENT OF EDUCATION						
<i>Passed-Through State Department of Education:</i>						
Title I Grants to Local Educational Agencies	044347-C1-S1-04	84.010	80,720	0	81,848	0
	044347-C1-S1-05	84.010	460,723	0	410,299	0
Total Title I Grants to Local Educational Agencies			541,443	0	492,147	0
Special Education, Grants to States	044347-6B-SF-04	84.027	(1,199)	0	8,337	0
	044347-6B-SF-05	84.027	338,712	0	323,661	0
Total Special Education, Grants to States			337,513	0	331,998	0
Safe and Drug-Free Schools and Communities, State Grants	044347-DR-S1-04	84.186	(450)	0	0	0
	044347-DR-S1-05	84.186	14,176	0	12,166	0
Total Safe and Drug-Free Schools and Communities, State Grants			13,726	0	12,166	0
Innovative Education Program Strategies	044347-C2-S1-04	84.298	(1,547)	0	744	0
	044347-C2-S1-05	84.298	13,518	0	13,018	0
Total Innovative Education Program Strategies, Title V			11,971	0	13,762	0
Education Technology State Grants	044347-TJ-S1-04	84.318	(756)	0	0	0
	044347-TJ-S1-05	84.318	18,095	0	17,157	0
Total Education Technology State Grants			17,339	0	17,157	0
Improving Teacher Quality State Grants	044347-TR-S1-04	84.367	17,984	0	11,036	0
	044347-TR-S1-05	84.367	64,677	0	74,682	0
Total Improving Teacher Quality State Grants			82,661	0	85,718	0
Total U.S. Department of Education			1,004,653	0	952,948	0
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES						
<i>Passed-Through Ohio Department of Mental Retardation and Developmental Disabilities:</i>						
State Children's Health Insurance Program	N/A	93.757	2,692	0	2,692	0
Medical Assistance Program	N/A	93.778	56,775	0	56,775	0
Total U.S. Department of Health and Human Services			59,467	0	59,467	0
U.S. DEPARTMENT OF HOMELAND SECURITY						
<i>Passed-Through Ohio Department of Public Safety - Emergency Management Agency:</i>						
Public Assistance Grants	FEMA-1556-DR-013-01501	97.036	3,401	0	3,401	0
Total U.S. Department of Homeland Security			3,401	0	3,401	0
Total Federal Awards Receipts and Expenditures			\$1,366,095	\$24,516	\$1,315,960	\$24,516

The accompanying Notes to the Schedule of Federal Awards Receipts and Expenditures is 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, 2005**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – 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-S1-04		\$41,124
84.010	044347-C1-S1-05	\$41,124	
84.027	044347-6B-SF-04		1,516
84.027	044347-6B-SF-05	1,516	
84.186	044347-DR-S1-04		450
84.186	044347-DR-S1-05	450	
84.298	044347-C2-S1-04		1,547
84.298	044347-C2-S1-05	1,547	
84.318	044347-TJ-S1-04		756
84.318	044347-TJ-S1-05	756	
Total		\$45,393	\$45,393



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, each major fund and the aggregate remaining fund information of the Martins Ferry City School District, Belmont County, Ohio (the School District), as of and for the year ended June 30, 2005, which collectively comprise the School District's basic financial statements and have issued our report thereon dated February 27, 2006, wherein we noted the School District changed its capitalization criteria for capital assets. 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 in order to express our opinions on the basic financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses.

Compliance and Other Matters

As part of reasonably assuring whether the School District's basic financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the School District's management dated February 27, 2006, 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*
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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 27, 2006



Auditor of State Betty Montgomery

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

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

To the Board of Education:

Compliance

We have audited the compliance of the Martins Ferry City School District, Belmont County, Ohio (the School District), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that apply to each of its major federal programs for the year ended June 30, 2005. The Summary of Auditor's Results section of the accompanying Schedule of Findings identifies the School District's major federal programs. The School District's management is responsible for complying with the requirements of laws, regulations, contracts and grants applicable to each major federal program. Our responsibility is to express an opinion on the School District's compliance based on our audit.

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

In our opinion, the School District complied, in all material respects, with the requirements referred to above that apply to each of its major federal programs for the year ended June 30, 2005.

Internal Control over Compliance

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

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Martins Ferry City School District
Belmont County
Independent Accountants' Report on Compliance with Requirements Applicable
to Each Major Federal Program and on 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 reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

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

Betty Montgomery
Auditor of State

February 27, 2006

**MARTINS FERRY CITY SCHOOL DISTRICT
BELMONT COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 SECTION .505
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

1. SUMMARY OF AUDITOR'S RESULTS
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(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):	Nutrition Cluster, CFDA #10.550, 10.553, 10.555; Special Education, Grants to States, CFDA #84.027
(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, 2005
(Continued)**

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

None.

3. FINDINGS FOR FEDERAL AWARDS

None.



**Auditor of State
Betty Montgomery**

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800-282-0370

Facsimile 614-466-4490

**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
APRIL 4, 2006**