



**Auditor of State  
Betty Montgomery**



**MARIETTA CITY SCHOOL DISTRICT  
WASHINGTON COUNTY**

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# Auditor of State Betty Montgomery

## INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Marietta City School District, Washington County, Ohio (the School District), as of and for the year ended June 30, 2003, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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 Marietta City School District, Washington County, as of June 30, 2003, and the respective changes in financial position and the cash flows, where applicable, and the respective budgetary comparison for the General Fund thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended June 30, 2003, the School District implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. The District also implemented GASB Statements 37, 38 and 41 and Interpretation 6 concurrently with GASB Statement 34.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 1, 2004, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

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



**Betty Montgomery**  
Auditor of State

March 1, 2004

**Marietta City School District, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2003*  
Unaudited

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The discussion and analysis of the Marietta City School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2003. 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 2003 are as follows:

- Net assets of governmental activities decreased \$413,260.
- General revenues accounted for \$19,986,820 in revenue or 82% of all revenues. Program specific revenues in the form of charges for services, grants, contributions, and interest accounted for \$4,356,599 or 18% of total revenues of \$24,343,419.
- The School District had \$24,756,679 in expenses related to governmental activities; only \$4,356,599 of these expenses were offset by program specific charges for services, grants, contributions, and interest. General revenues of \$19,986,820 were not adequate to provide for these programs by \$413,260.
- The School District's major funds were the General Fund and the Bond Retirement Debt Service Fund. The General Fund had \$20,972,540 in revenues and \$21,384,456 in expenditures. The General Fund's balance decreased \$504,836. The Bond Retirement Fund had \$907,170 in revenues and \$5,542,596 in expenditures. The Bond Retirement Fund's balance decreased \$49,805.

**Using this Annual Financial Report**

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

The Statement of Net Assets 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.

**Marietta City School District, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2003*  
Unaudited

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***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 2003?" 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 programs and services are reported as governmental activities including food service operations, instruction, support services, operation of non- instructional services, bond service operations, and extracurricular activities.

***Reporting the School District's Most Significant Funds***

*Fund Financial Statements*

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

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



**Marietta City School District, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2003*  
 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 2003 compared to 2002.

Table 1  
Net Assets

	Governmental Activities	
	2003	2002
<b>Assets</b>		
Current and Other Assets	\$15,377,183	\$15,673,059
Capital Assets	7,363,719	7,470,493
Total Assets	22,740,902	23,143,552
<b>Liabilities</b>		
Long-term Liabilities	6,960,673	7,866,840
Other Liabilities	14,114,292	13,197,515
Total Liabilities	21,074,965	21,064,355
<b>Net Assets</b>		
Invested in Capital Assets, Net of Debt	3,065,515	2,250,922
Restricted	2,055,616	2,273,059
Unrestricted	(3,455,194)	(2,444,784)
Total Net Assets	\$1,665,937	\$2,079,197

Total assets decreased \$402,650. An intergovernmental receivable of \$471,979 has been recorded at June 30, 2002, for late homestead and rollback settlements. The settlements were received timely in fiscal year 2003; therefore, this receivable was not recorded for June 30, 2003.

Total liabilities only increased \$10,610. While long-term liabilities decreased \$678,367 with the repayment and refunding of debt and compensated absences decreased \$227,800, deferred revenue increased \$615,756.

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2003. Since this is the first year Marietta City School District has prepared financial statements following GASB Statement 34, revenue and expense comparisons to fiscal year 2002 are not available. In future years, when prior year information is available, a comparative analysis of government-wide data will be presented.

**Marietta City School District, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2003*  
 Unaudited

Table 2  
 Changes in Net Assets

	Governmental Activities
	2003
<b>Revenues</b>	
Program Revenues	
Charges for Services	\$1,020,472
Operating Grants, Contributions and Interest	3,239,101
Capital Grants and Contributions	97,026
Total Program Revenues	4,356,599
General Revenues	
Property Taxes	10,373,443
Grants and Entitlements	9,349,883
Gain on Sale of Capital Assets	1,956
Investment Earnings	110,632
Miscellaneous	150,906
Total General Revenues	19,986,820
Total Revenues	24,343,419
<b>Program Expenses</b>	
Instruction:	
Regular	11,256,072
Special	2,789,095
Vocational	115,163
Adult/Continuing	106,325
Support Services:	
Pupil	1,149,031
Instructional Staff	1,605,942
Board of Education	78,589
Administration	1,852,583
Fiscal	459,606
Business	275,184
Operation and Maintenance of Plant	2,242,375
Pupil Transportation	1,155,369
Central	119,853
Operation of Non-Instructional Services:	
Food Service Operations	724,744
Other	134,781
Extracurricular Activities	487,114
Interest and Fiscal Charges	204,853
Total Expenses	24,756,679
Decrease in Net Assets	(\$413,260)

**Marietta City School District, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2003*  
Unaudited

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During fiscal year 2003, the School District maintained very similar staffing and programs as compared to the previous year. The School District has been approved to participate in the Ohio School Facilities Commission Classroom Facilities Assistance Program.

The DeRolph III decision has not eliminated the dependence on property taxes. The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. Inflation alone will not increase the amount of funds generated by a tax levy. Basically, the mills collected decreases as the property valuation increases thus generating about the same revenue. Property taxes made up approximately 42% of revenues for governmental activities for the Marietta City School District in fiscal year 2003.

Instruction comprises approximately 58% of governmental program expenses.

The Statement of Activities shows the cost of program services and the charges for services, grants, contributions, and interest earnings offsetting those services. Table 3 shows the total cost of services and the net cost of services. That is, it identifies the cost of those services supported by tax revenue and unrestricted state entitlements. Comparisons to 2002 have not been made since they are not available.

**Marietta City School District, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2003*  
 Unaudited

Table 3  
 Governmental Activities

	Total Cost of Services	Net Cost of Services
	2003	2003
<b>Program Expenses</b>		
Instruction:		
Regular	\$11,256,072	\$10,557,058
Special	2,789,095	1,203,163
Vocational	115,163	75,422
Adult/Continuing	106,325	12,002
Support Services:		
Pupil	1,149,031	1,018,757
Instructional Staff	1,605,942	1,145,956
Board of Education	78,589	78,589
Administration	1,852,583	1,780,210
Fiscal	459,606	459,182
Business	275,184	275,184
Operation and Maintenance of Plant	2,242,375	2,211,533
Pupil Transportation	1,155,369	985,642
Central	119,853	79,720
Operation of Non-Instructional Services		
Food Service	724,744	(12,412)
Other	134,781	(5,256)
Extracurricular Activities	487,114	330,477
Interest and Fiscal Charges	204,853	204,853
<b>Total</b>	<b><u>\$24,756,679</u></b>	<b><u>\$20,400,080</u></b>

The dependence upon tax revenues and state subsidies for governmental activities is apparent. For fiscal year 2003, approximately 71% of instruction activities were supported through taxes and other general revenues.

**Marietta City School District, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2003*  
 Unaudited

**The School District Funds**

The School District's major funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$24,740,512 and expenditures of \$30,095,074. The School District remains in a difficult financial situation. The Board has approved the closure of two elementary schools and reduction of staff by 23 positions for fiscal year 2004. The School District will also place an operating levy on the ballot during 2004.

***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 2003, the School District amended its General Fund budget, but not significantly. The School District uses a modified site-based budgeting technique which is designed to tightly control total site budgets but provide flexibility for site management.

For the General Fund, budget basis revenue was \$21,482,724, above original estimates of \$21,319,494. The \$163,230 difference was due to conservative budgeting.

The School District's ending unobligated General Fund balance was \$766,668.

**Capital Assets and Debt Administration**

***Capital Assets***

At the end of fiscal year 2003, the School District had \$3,065,515, net of related debt, invested in land, buildings, furniture and equipment, and vehicles. Table 4 shows fiscal year 2003 balances compared to 2002.

Table 4  
 Capital Assets  
 (Net of Depreciation)

	Governmental Activities	
	2003	2002
Land and Land Improvements	\$959,094	\$959,094
Buildings and Improvements	4,870,711	5,052,810
Furniture and Equipment	1,028,906	955,671
Vehicles	505,008	502,918
Totals	\$7,363,719	\$7,470,493

**Marietta City School District, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2003*  
 Unaudited

During fiscal year 2003, the School District was donated cash to purchase scoreboards for the high school gym, an entrance sign for the high school, instructional equipment for all buildings, floor maintenance equipment for all buildings, band room storage lockers, vocational equipment at the high school, a school bus, and various other equipment. See note 9 to the basic financial statements for more information on capital assets.

***Debt***

At June 30, 2003, the School District had \$4,541,204 in bonds, loans, and capital leases outstanding. Due to prudent spending and continuous monitoring of all revenues and expenditures, Standard & Poor's Corporation and Moody's Investors Service, Inc. have assigned their municipal bond rating of "AAA" and "Aaa", respectively.

Table 5  
 Outstanding Debt, at Fiscal Year End

	Governmental Activities	
	2003	2002
1993 School Improvement Bonds	\$0	\$5,145,000
2002 School Improvement Bonds:		
Serial Bonds	3,705,000	0
Original Issue of Capital Appreciation Bonds	690,000	0
Accretion on Capital Appreciation Bonds	170,136	0
Serial Bond Premium	32,190	0
Deferred Amount on Refunding (98,695)		0
Lunchroom Loan	40,000	60,000
Capital Leases	2,573	14,571
Totals	\$4,541,204	\$5,219,571

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

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

See note 15 to the basic financial statements for more information on debt.

**Marietta City School District, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2003*  
Unaudited

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**Current Issues**

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

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

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

**Contacting the School District's Financial Management**

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

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**Marietta City School District, Ohio**

*Statement of Net Assets*

*June 30, 2003*

	<u>Governmental Activities</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$3,407,677
Cash with Fiscal Agents	111
Materials and Supplies Inventory	39,915
Intergovernmental Receivable	271,194
Prepaid Items	51,310
Accounts Receivable	186,738
Property Taxes Receivable	11,347,374
Deferred Charges	72,864
Nondepreciable Capital Assets	959,094
Depreciable Capital Assets, Net	<u>6,404,625</u>
<i>Total Assets</i>	<u>22,740,902</u>
<b>Liabilities</b>	
Accounts Payable	261,760
Accrued Wages Payable	1,656,712
Accrued Interest Payable	7,546
Matured Compensated Absences Payable	120,727
Matured Interest Payable	111
Deferred Revenue	10,947,491
Intergovernmental Payable	615,017
Claims Payable	504,928
Long-Term Liabilities:	
Due Within One Year	1,038,936
Due In More Than One Year	<u>5,921,737</u>
<i>Total Liabilities</i>	<u>21,074,965</u>
<b>Net Assets</b>	
Invested in Capital Assets, Net of Related Debt	3,065,515
Restricted for:	
Capital Projects	209,686
Debt Service	1,166,953
Textbooks	239,777
Budget Stabilization	80,661
Bus Purchase	41,696
Other Purposes	316,843
Unrestricted (Deficit)	<u>(3,455,194)</u>
<i>Total Net Assets</i>	<u><u>\$1,665,937</u></u>

See accompanying notes to the basic financial statements

**Marietta City School District, Ohio**

*Statement of Activities*

*For the Fiscal Year Ended June 30, 2003*

	Expenses	Program Revenues		Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants, Contributions and Interest		
<b>Governmental Activities</b>					
Instruction:					
Regular	\$11,256,072	\$363,875	\$335,139	\$0	(\$10,557,058)
Special	2,789,095	0	1,585,932	0	(1,203,163)
Vocational	115,163	0	39,741	0	(75,422)
Adult/Continuing	106,325	0	94,323	0	(12,002)
Support Services:					
Pupil	1,149,031	76,591	53,683	0	(1,018,757)
Instructional Staff	1,605,942	0	459,986	0	(1,145,956)
Board of Education	78,589	0	0	0	(78,589)
Administration	1,852,583	205	72,168	0	(1,780,210)
Fiscal	459,606	0	424	0	(459,182)
Business	275,184	0	0	0	(275,184)
Operation and Maintenance of Plant	2,242,375	4,673	26,169	0	(2,211,533)
Pupil Transportation	1,155,369	40,807	87,224	41,696	(985,642)
Central	119,853	0	40,133	0	(79,720)
Operation of Non-Instructional Services:					
Food Service Operations	724,744	426,759	310,397	0	12,412
Other	134,781	6,255	133,782	0	5,256
Extracurricular Activities	487,114	101,307	0	55,330	(330,477)
Interest and Fiscal Charges	204,853	0	0	0	(204,853)
<b>Totals</b>	<b>\$24,756,679</b>	<b>\$1,020,472</b>	<b>\$3,239,101</b>	<b>\$97,026</b>	<b>(20,400,080)</b>
<b>General Revenues</b>					
Property Taxes Levied for:					
General Purposes					9,622,121
Debt Service					751,322
Grants and Entitlements not Restricted to Specific Programs					9,349,883
Investment Earnings					110,632
Gain on Sale of Capital Assets					1,956
Miscellaneous					150,906
<b>Total General Revenues</b>					<b>19,986,820</b>
<i>Change in Net Assets</i>					(413,260)
<i>Net Assets Beginning of Year - See Note 3</i>					2,079,197
<i>Net Assets End of Year</i>					<b>\$1,665,937</b>

See accompanying notes to the financial statements

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**Marietta City School District, Ohio**

*Balance Sheet*

*Governmental Funds*

*June 30, 2003*

	General	Bond Retirement	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>				
Equity in Pooled Cash and Cash Equivalents	\$570,374	\$1,141,418	\$800,207	\$2,511,999
Cash with Fiscal Agents	0	111	0	111
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	568,646	0	0	568,646
Receivables:				
Property Taxes	10,560,816	786,558	0	11,347,374
Accounts	26,450	0	98,225	124,675
Intergovernmental	60,899	0	210,295	271,194
Interfund	47,472	0	0	47,472
Prepaid Items	322,523	0	18,422	340,945
Materials and Supplies Inventory	18,745	0	21,170	39,915
<i>Total Assets</i>	<u>\$12,175,925</u>	<u>\$1,928,087</u>	<u>\$1,148,319</u>	<u>\$15,252,331</u>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Accounts Payable	\$127,385	\$0	\$134,375	\$261,760
Accrued Wages and Benefits Payable	1,526,236	0	130,476	1,656,712
Matured Compensated Absences Payable	120,727	0	0	120,727
Matured Interest Payable	0	111	0	111
Interfund Payable	0	0	47,472	47,472
Intergovernmental Payable	436,823	0	31,766	468,589
Deferred Revenue	10,387,081	768,664	170,635	11,326,380
<i>Total Liabilities</i>	<u>12,598,252</u>	<u>768,775</u>	<u>514,724</u>	<u>13,881,751</u>
<b>Fund Balances</b>				
Reserved for Encumbrances	8,429	0	151,930	160,359
Reserved for Capital Improvements	206,512	0	0	206,512
Reserved for Textbooks	239,777	0	0	239,777
Reserved for Budget Stabilization	80,661	0	0	80,661
Reserved for Bus Purchases	41,696	0	0	41,696
Reserved for Property Taxes	211,226	17,894	0	229,120
Unreserved, Undesignated, Reported in:				
General Fund (Deficit)	(1,210,628)	0	0	(1,210,628)
Special Revenue Funds	0	0	480,952	480,952
Debt Service Fund	0	1,141,418	0	1,141,418
Capital Projects Funds	0	0	713	713
<i>Total Fund Balances</i>	<u>(422,327)</u>	<u>1,159,312</u>	<u>633,595</u>	<u>1,370,580</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$12,175,925</u>	<u>\$1,928,087</u>	<u>\$1,148,319</u>	<u>\$15,252,331</u>

See accompanying notes to the basic financial statements

**Marietta City School District, Ohio**  
*Reconciliation of Total Governmental Fund Balances to  
 Net Assets of Governmental Activities  
 June 30, 2003*

<b>Total Governmental Fund Balances</b>		<b>\$1,370,580</b>
 <i>Amounts reported for governmental activities in the statement of net assets are different because</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		7,363,719
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:		
Property Taxes	170,763	
Grants	87,896	
Student Fees	120,230	378,889
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal fund are included in governmental activities in the statement of net assets.		(405,468)
Interest Payable is accrued for outstanding long-term liabilities while interest is not reported until due on the Balance Sheet.		(7,546)
Unamortized issuance costs represent deferred charges which do not provide current financial resources and, therefore, are not reported in the funds.		72,864
Intergovernmental Payable includes contractually required pension contributions which are not expected to be paid with expendable available financial resources and therefore are not reported in the funds.		(146,428)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:		
School Improvement Bonds Payable	(4,498,631)	
Lunchroom Loan	(40,000)	
Capital Leases Payable	(2,573)	
Compensated Absences Payable	(2,419,469)	(6,960,673)
Net Assets of Governmental Activities		<b>\$1,665,937</b>

See accompanying notes to the basic financial statements

**Marietta City School District, Ohio**  
*Statement of Revenues, Expenditures and Changes in Fund Balances*  
*Governmental Funds*  
*For the Fiscal Year Ended June 30, 2003*

	General	Bond Retirement	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>				
Taxes	\$10,041,073	\$792,263	\$0	\$10,833,336
Intergovernmental	10,390,226	100,573	2,179,616	12,670,415
Interest	96,298	14,334	2,105	112,737
Charges for Services	0	0	426,759	426,759
Tuition and Fees	213,670	0	70,948	284,618
Extracurricular Activities	0	0	141,064	141,064
Miscellaneous	231,273	0	40,310	271,583
<i>Total Revenues</i>	<u>20,972,540</u>	<u>907,170</u>	<u>2,860,802</u>	<u>24,740,512</u>
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	10,802,816	0	501,582	11,304,398
Special	2,085,560	0	683,008	2,768,568
Vocational	106,029	0	0	106,029
Adult/Continuing	554	0	101,445	101,999
Support Services:				
Pupil	1,035,777	0	35,847	1,071,624
Instructional Staff	1,010,761	0	568,688	1,579,449
Board of Education	78,589	0	0	78,589
Administration	1,806,513	0	152,958	1,959,471
Fiscal	442,150	16,968	600	459,718
Business	271,349	0	0	271,349
Operation and Maintenance of Plant	2,239,958	0	35,467	2,275,425
Pupil Transportation	1,120,826	0	13,426	1,134,252
Central	85,573	0	2,882	88,455
Operation of Non-Instructional Services	0	0	873,522	873,522
Extracurricular Activities	285,348	0	178,597	463,945
Debt Service:				
Principal Retirement	11,998	750,000	20,000	781,998
Payment to Bondholders	0	4,504,661	0	4,504,661
Bond Issuance Costs	0	80,960	0	80,960
Interest and Fiscal Charges	655	190,007	0	190,662
<i>Total Expenditures</i>	<u>21,384,456</u>	<u>5,542,596</u>	<u>3,168,022</u>	<u>30,095,074</u>
<i>Excess of Revenues Under Expenditures</i>	<u>(411,916)</u>	<u>(4,635,426)</u>	<u>(307,220)</u>	<u>(5,354,562)</u>
<b>Other Financing Sources (Uses)</b>				
General Obligation Bonds Issued	0	4,690,000	0	4,690,000
Premium on Serial Bonds	0	35,767	0	35,767
Premium on Capital Appreciation Bonds	0	154,854	0	154,854
Discount on Capital Appreciation Bonds	0	(295,000)	0	(295,000)
Sale of Capital Assets	1,956	0	0	1,956
Transfer In	0	0	95,651	95,651
Transfer Out	(94,876)	0	(775)	(95,651)
<i>Total Other Financing Sources (Uses)</i>	<u>(92,920)</u>	<u>4,585,621</u>	<u>94,876</u>	<u>4,587,577</u>
<i>Net Change in Fund Balance</i>	<u>(504,836)</u>	<u>(49,805)</u>	<u>(212,344)</u>	<u>(766,985)</u>
<i>Fund Balances Beginning of Year - Restated Note 3</i>	<u>82,509</u>	<u>1,209,117</u>	<u>845,939</u>	<u>2,137,565</u>
<i>Fund Balances (Deficit) End of Year</i>	<u>(\$422,327)</u>	<u>\$1,159,312</u>	<u>\$633,595</u>	<u>\$1,370,580</u>

See accompanying notes to the financial statements  
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**Marietta City School District, Ohio**  
*Reconciliation of the Statement of Revenues, Expenditures and Changes  
in Fund Balances of Governmental Funds to the Statement of Activities  
For the Fiscal Year Ended June 30, 2003*

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<b>Net Change in Fund Balances - Total Governmental Funds</b>	(\$766,985)
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*Amounts reported for governmental activities in the statement of activities  
are different because*

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

Capital Asset Additions	451,652	
Depreciation Expense	(558,426)	(106,774)

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

Grants	(53,824)	
Student Fees	114,668	
Delinquent Taxes	(459,893)	(399,049)

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

(140,336)

Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of activities.

5,176,998

Bond proceeds are other financing sources in the governmental funds, but the issuance increases the long-term liabilities on the statement of activities. Governmental funds report the effect of premiums and discounts when the debt is first issued; however, these amounts are deferred and amortized on the statement of activities:

General Obligation Bonds	(4,690,000)	
Premium on Capital Appreciation Bonds	(154,854)	
Premium on Serial Bonds	(35,767)	
Discount on Capital Appreciation Bonds	295,000	
Deferred Amount on Refunding	109,661	(4,475,960)

Interest is reported as an expenditure when due in the governmental funds, but is accrued on outstanding debt on the statement of activities. Premiums and discounts are reported as revenues and expenditures when the debt is first issued; however, these amounts are deferred and amortized on the statement of activities:

Annual Accretion	(15,282)	
Accrued Interest Payable	16,576	
Amortization of Deferred Amount on Refunding	(10,966)	
Amortization of Issuance Costs	(8,096)	
Amortization of Premium on Serial Bonds	3,577	(14,191)

Issuance costs are reported as an expenditure when paid in the governmental funds, but is deferred and amortized on the statement of activities. This is the unamortized issuance costs on the bonds.

80,960

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:

Intergovernmental Payables	4,277	
Sick Leave Benefits Payable	227,800	232,077

<i>Change in Net Assets of Governmental Activities</i>	<u><u>(\$413,260)</u></u>
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See accompanying notes to the financial statements

**Marietta City School District, Ohio**  
*Statement of Revenues, Expenditures and Changes  
in Fund Balance - Budget and Actual (Budget Basis)  
General Fund  
For the Fiscal Year Ended June 30, 2003*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Taxes	\$10,008,743	\$10,069,025	\$10,069,025	\$0
Intergovernmental	10,779,155	10,841,871	10,841,871	0
Interest	95,721	96,298	96,298	0
Tuition and Fees	214,931	218,432	218,432	0
Miscellaneous	220,944	257,098	257,098	0
<i>Total Revenues</i>	21,319,494	21,482,724	21,482,724	0
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	11,366,789	10,966,694	10,836,580	130,114
Special	2,221,995	2,161,013	2,118,349	42,664
Vocational	113,051	115,321	107,778	7,543
Adult/Continuing	581	554	554	0
Support Services:				
Pupils	1,091,596	1,055,545	1,040,678	14,867
Instructional Staff	1,076,315	1,055,943	1,026,110	29,833
Board of Education	112,388	126,942	107,146	19,796
Administration	1,965,764	1,973,357	1,874,070	99,287
Fiscal	464,339	453,069	442,680	10,389
Business	294,214	323,009	280,490	42,519
Operation and Maintenance of Plant	2,504,093	2,602,658	2,387,289	215,369
Pupil Transportation	1,204,115	1,252,110	1,147,949	104,161
Central	99,734	103,638	95,082	8,556
Non-Instructional Services	0	640	0	640
Extracurricular Activities	297,287	283,702	283,420	282
<i>Total Expenditures</i>	22,812,261	22,474,195	21,748,175	726,020
<i>Excess of Revenues Under Expenditures</i>	(1,492,767)	(991,471)	(265,451)	726,020
<b>Other Financing Sources (Uses)</b>				
Sale of Capital Assets	19,756	19,875	19,875	0
Refund of Prior Year Expenditures	0	343	343	0
Refund of Prior Year Receipts	(41,068)	(41,068)	0	41,068
Advances In	65,951	71,167	71,167	0
Advances Out	(47,073)	(47,073)	(47,073)	0
Transfers Out	(94,876)	(94,876)	(94,876)	0
<i>Total Other Financing Sources (Uses)</i>	(97,310)	(91,632)	(50,564)	41,068
<i>Net Change in Fund Balance</i>	(1,590,077)	(1,083,103)	(316,015)	767,088
<i>Fund Balance Beginning of Year</i>	1,309,898	817,430	817,430	0
Prior Year Encumbrances Appropriated	265,253	265,253	265,253	0
<i>Fund Balance (Deficit) End of Year</i>	(\$14,926)	(\$420)	\$766,668	\$767,088

See accompanying notes to the basic financial statements



**Marietta City School District, Ohio**

*Statement of Fund Net Assets*

*Internal Service Fund*

*June 30, 2003*

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	<u>Medical, Dental, Vision Insurance</u>
<b>Current Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$327,032
Accounts Receivable	<u>62,063</u>
<i>Total Assets</i>	<u>389,095</u>
<b>Current Liabilities</b>	
Deferred Revenue	289,635
Claims Payable	<u>504,928</u>
<i>Total Liabilities</i>	<u>794,563</u>
<b>Net Assets</b>	
Unrestricted (Deficit)	<u><u>(\$405,468)</u></u>

See accompanying notes to the basic financial statements

**Marietta City School District, Ohio**  
*Statement of Revenues,  
Expenses and Changes in Fund Net Assets  
Internal Service Fund  
For the Fiscal Year Ended June 30, 2003*

	Medical, Dental, Vision Insurance
<b>Operating Revenues</b>	
Charges for Services	\$3,662,017
<b>Operating Expenses</b>	
Purchased Services	363,673
Claims	3,438,680
<i>Total Operating Expenses</i>	3,802,353
<i>Change in Net Assets</i>	(140,336)
<i>Net Assets (Deficit) at Beginning of Year</i>	(265,132)
<i>Net Assets (Deficit) at End of Year</i>	(\$405,468)

See accompanying notes to the basic financial statements

**Marietta City School District, Ohio**  
*Statement of Cash Flows*  
*Internal Service Fund*  
*For the Fiscal Year Ended June 30, 2003*

	<u>Medical, Dental, Vision Insurance</u>
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	
<b>Cash Flows from Operating Activities</b>	
Cash Received from Transactions with Other Funds	\$3,718,994
Cash Payments to Suppliers for Services	(355,745)
Cash Payments for Claims	<u>(3,266,680)</u>
<i>Net Cash Provided by Operating Activities</i>	96,569
<i>Cash and Cash Equivalents Beginning of Year</i>	<u>230,463</u>
<i>Cash and Cash Equivalents End of Year</i>	<u><u>\$327,032</u></u>
<b>Reconciliation of Operating Loss to Net Cash Provided by Operating Activities</b>	
Operating Loss	(\$140,336)
<b>Changes in Assets and Liabilities</b>	
Increase in Accounts Receivable	(9,153)
Increase in Deferred Revenue	66,130
Increase in Claims Payable	<u>179,928</u>
<i>Net Cash Provided by Operating Activities</i>	<u><u>\$96,569</u></u>

See accompanying notes to the basic financial statements

**Marietta City School District, Ohio**  
*Statement of Fiduciary Assets and Liabilities*  
*Agency Funds*  
*June 30, 2003*

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<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	<u>\$64,204</u>
<b>Liabilities</b>	
Due to Students	<u>\$64,204</u>

See accompanying notes to the basic financial statements

**Marietta City School District, Ohio**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2003

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**Note 1 - Description of the School District and Reporting Entity**

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

The School District operates under a locally-elected five-member Board form of government and provides educational services as authorized by State statute and federal guidelines. This Board of Education controls the School District's 12 instructional/support facilities staffed by 118 classified employees, 215 certified teaching personnel, and 18 administrators, who provide services to 3,209 students and other community members.

*Reporting Entity*

A reporting entity is composed of the primary government, component units, and other organizations that are included to insure 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 Marietta City School District, this includes general operations, food service, and student related activities of the School District. The following activities are also included within the reporting entity.

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

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. The School District has no component units.

The School District participates in four jointly governed organizations and one insurance purchasing pool. These organizations are the Southeastern Ohio Voluntary Education Cooperative, the Washington County Career Center, the Coalition of Rural and Appalachian Schools, the South Eastern Ohio Special Education Regional Resource Center, and the Ohio School Boards Association Workers' Compensation Group Rating Plan. These organizations are presented in Notes 17 and 18 to the basic financial statements.

## Marietta City School District, Ohio

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2003

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### **Note 2 - Summary of Significant Accounting Policies**

The financial statements of the 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 and proprietary fund 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 the fiduciary fund. The activity of the internal service fund is eliminated to avoid "doubling up" revenues and expenses.

The statement of net assets presents the financial condition of the governmental activities of the School District at fiscal 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 fiscal 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. The internal service fund is presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by type.

#### ***B. Fund Accounting***

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

## Marietta City School District, Ohio

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2003

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**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:

**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.

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

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

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

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

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

### **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 accounts for increases (i.e. revenues) and decreases (i.e. expenditures) in 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.

## Marietta City School District, Ohio

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2003

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### ***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. Proprietary and 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 sixty days of fiscal year end.

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes and 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 fiscal year end: property taxes available as an advance, investment earnings, 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, 2003, but which were levied to finance fiscal year 2004 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.



## **Marietta City School District, Ohio**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2003

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### ***E. Cash and Cash Equivalents***

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

During fiscal year 2003, investments were limited to STAROhio. STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on June 30, 2003.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2003 amounted to \$96,298, which includes \$47,660 assigned from other School District funds.

The School District utilizes financial institutions to service bonded debt as principal and interest payments come due. The balance in this account is presented on the financial statements as "cash with fiscal agents" and represents deposits.

Investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the School District are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months not purchased from the pool are reported as investments.

### ***F. Prepaid Items***

Payments made to vendors for services that will benefit periods beyond June 30, 2003, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the fiscal year in which services are consumed.

### ***G. Inventory***

Inventories are presented at cost on a first-in, first-out basis and are expended/expensed when used. Inventories consist of materials and supplies held for consumption and donated and purchased food.

### ***H. Capital Assets***

The School District's only capital assets are general capital assets. General capital assets are those assets specifically related to governmental activities. These assets generally result from expenditures in the governmental funds. These assets 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 fiscal year. Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of five hundred dollars. 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.

**Marietta City School District, Ohio**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2003

All reported capital assets, except land and land improvements, 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:

Description	Estimated Lives
Buildings and Improvements	45 years
Furniture and Equipment	5 - 15 years
Vehicles	3 - 10 years

***I. 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. Restricted assets include amounts required by statute to be set-aside by the School District for the creation of a reserve for budget stabilization, for the purchase of textbooks, and for the acquisition or construction of capital assets, and unexpended grants restricted for the purchase of buses. See Note 19 for additional information regarding set-asides.

***J. Compensated Absences***

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the School District will compensate the employees for the benefits through paid time off or some other means. The liability for vacation benefits is recorded as long-term liabilities, as the balances can be carried over for eight years.

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

The entire compensated absences benefit liability is reported on the government-wide financial statements.

On the governmental fund financial statements, benefits are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements. These amounts are reported as "matured sick leave benefits payable" in the fund from which the employees who will receive the payment are paid.

***K. Unamortized Issuance Costs and Note/Bond Premiums and Discounts***

On government-wide financial statements, issuance costs and bond discounts and premiums are deferred and amortized over the term of the bonds. Issuance costs are recorded as deferred charges. Bond premiums are presented as an addition of the face amount of bonds payable.

Bond discounts on the capital appreciation bonds are deferred and accreted over the term of the bonds. Bond discounts are presented as a reduction to the face amount of the bonds.

## **Marietta City School District, Ohio**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2003

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On the governmental fund financial statements, issuance costs, bond premiums, and bond discounts are recognized in the current period.

### ***L. Accrued Liabilities and Long-term Obligations***

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, claims and judgments, compensated absences, 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 fiscal year. Bonds, long-term loans, and capital lease payables are recognized as a liability on the governmental fund financial statements when due.

### ***M. Interfund Activity***

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

### ***N. Fund Balance Reserves***

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

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute. The reserve for budget stabilization represents money set-aside to protect against cyclical changes in revenues and expenditures.

### ***O. Net Assets***

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

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

## **Marietta City School District, Ohio**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2003

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### ***P. Extraordinary and Special Items***

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

### ***Q. Estimates***

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

### ***R. Budgetary Process***

All funds, other than the agency fund, 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. The Chief Fiscal Officer maintains budgetary information at the fund, function, and object level and has the authority to allocate appropriations at the function and object level without resolution by the Board.

The certificate of estimated resources may be amended during the fiscal year if projected increases or decreases in revenue are identified by the School District Chief Fiscal Officer. The amounts reported as the original budgeted amounts in the budgetary statement are based on estimates made before the end of the prior fiscal year. The amounts reported as the final budgeted amounts in the budgetary statement reflect the amounts in the amended certificate in effect when final appropriations for the fiscal year were passed.

The appropriation resolution is subject to amendment by the Board throughout the fiscal 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 fiscal years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the fiscal year.

### **Note 3 - Changes in Accounting Principle and Restatement of Fund Balance**

For fiscal year 2003, the School District has implemented GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments", GASB Statement No. 37, "Basic Financial Statements for State and Local Governments: Omnibus", GASB Statement No. 38, "Certain Financial Statement Note Disclosures", GASB Statement No. 41, "Budgetary Comparison Schedules - Perspective Differences", and GASB Interpretation No. 6 "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements."

## Marietta City School District, Ohio

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2003

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

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

GASB 34 creates new basic financial statements for reporting on the School District's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statements split the School District's programs between business-type activities, if any, and governmental activities. The beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at June 30, 2002, caused by the reclassification of funds based on the guidance provided in Statement No. 34 and the conversion to the accrual basis of accounting.

GASB Statement No. 41 allows the presentation of budgetary schedules as required supplementary information based on the fund, organization, or program structure that the government uses for its legally adopted budget when significant budgetary perspective differences result in the school district not being able to present budgetary comparisons for the general and each major special revenue fund. The implementation of this statement did not have any effect on the presentation of the School District's budgetary financial statements for fiscal year 2003.

***Restatement of Fund Balance*** It was determined that the Food Service and the Uniform School Supplies Enterprise Funds should be reclassified as special revenue funds. This restatement and the implementation of Interpretation No. 6 had the following effects on fund balance of major and nonmajor funds of the School District as they were previously reported. The transition from governmental fund balance to net assets of the governmental activities is also presented.

**Marietta City School District, Ohio**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

	Bond			
	General	Retirement	Nonmajor	Total
Fund Balances, June 30, 2002	\$77,170	\$1,209,117	\$639,832	\$1,926,119
Fund Reclassification	554	0	206,107	206,661
Matured Compensated Absences Overstatement Interpretation 6	(12,634)	0	0	(12,634)
	17,419	0	0	17,419
Adjusted Fund Balances, June 30, 2002	<u>\$82,509</u>	<u>\$1,209,117</u>	<u>\$845,939</u>	2,137,565
GASB 34 Adjustments:				
Internal Service				(265,132)
Capital Assets				7,470,493
Pension Obligation				(150,705)
Compensated Absences				(2,647,269)
Accrued Interest Payable				(24,122)
Long-term Liabilities				(5,219,571)
Long-term (Deferred) Assets				777,938
Governmental Activities Net Assets, June 30, 2002				<u>\$2,079,197</u>

	Business-Type Activities
Fund Equity, June 30, 2002	<u>\$66,046</u>
Fund Reclassification	<u>(66,046)</u>
Adjusted Net Assets, June 30, 2002	<u>\$0</u>

**Note 4 – Accountability and Compliance**

***A. Accountability***

At June 30, 2003, the General Fund and the Disadvantaged Pupil Impact Aid Special Revenue Fund had deficit fund balances of \$422,327 and \$680, respectively. The deficits resulted from adjustments for accrual liabilities. The School District is analyzing fund operations to determine appropriate steps to alleviate the deficit.

***B. Compliance***

The following fund had appropriations in excess of estimated revenues and unencumbered balance contrary to Section 5705.39, Ohio Revised Code.

**Marietta City School District, Ohio**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2003

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	Estimated Resources and Unencumbered		
	<u>Balances</u>	<u>Appropriations</u>	<u>Excess</u>
General Fund:			
Original Budget	\$22,980,352	\$22,995,278	(\$14,926)
Final Budget	22,656,792	22,657,212	(420)

The School District will monitor estimated revenue levels in the future to ensure that appropriations are not in excess of the amount available.

**Note 5 - Budgetary Basis of Accounting**

While the School District is reporting financial position, results of operations, and changes in fund balance 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 Balances - Budget and Actual (Budget Basis) 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 (modified accrual) basis are as follows:

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).

The following tables summarize the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the General Fund.

**Marietta City School District, Ohio**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2003

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Net Change in Fund Balance

GAAP Basis	(\$504,836)
Revenue Accruals	528,446
Expenditure Accrual	92,393
Prepaid Items:	
Beginning of Fiscal Year	238,763
End of Fiscal Year	(322,523)
Advance In	71,167
Advance Out	(47,073)
Encumbrances	<u>(372,352)</u>
Budget Basis	<u><u>(\$316,015)</u></u>

**Note 6 - Deposits and Investments**

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

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

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

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

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

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

1. United States Treasury Notes, Bill, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to payment of principal and interest by the United States;



## Marietta City School District, Ohio

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2003

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2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAROhio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments (Including Repurchase Agreements), and Reverse Repurchase Agreements."

**Deposits** At fiscal year end, the carrying amount of the School District's deposits was \$3,469,560 and the bank balance was \$3,782,104. Of the bank balance:

1. \$200,000 was covered by federal depository insurance; and
2. \$3,582,104 was collateralized with securities held by the pledging financial institution's trust department in the School District's name.

**Marietta City School District, Ohio**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2003

**Investments** The School District's investments are required to be categorized below to give an indication of the level of risk assumed by the School District at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by the School District or its agent in the School District's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the School District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the School District's name. The School District's investment in STAROhio, an investment pool operated by the Ohio State Treasurer, is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form. The fair value of the investment in STAROhio at June 30, 2003, was \$2,432.

The classification of cash and cash equivalents and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9. A reconciliation between the classifications of cash and investments and the combined financial statements and the classification per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement 9	\$3,471,992	\$0
Investments:		
STAROhio	(2,432)	2,432
GASB Statement 3	<u>\$3,469,560</u>	<u>\$2,432</u>

**Note 7 - Property Taxes**

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

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

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

**Marietta City School District, Ohio**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2003

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

The School District receives property taxes from Washington County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2003, are available to finance fiscal year 2003 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real, personal property, and public utility taxes which are measurable as of June 30, 2003, and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 were levied to finance current fiscal year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not levied to finance current year operations. The amount available as an advance at June 30, 2003, was \$229,120 and is recognized as revenue: \$211,226 in the General Fund and \$17,894 in the Bond Retirement Fund. The amount available as an advance at June 30, 2002, was \$262,564 and is recognized as revenue: \$239,178 in the General Fund and \$23,386 in the Bond Retirement 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 is deferred.

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

	2002 Second Half Collections		2003 First Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential And Other Real Estate	\$323,317,800	81%	\$324,170,390	81%
Public Utility Personal	15,283,970	4%	15,330,750	4%
Tangible Personal Property	60,854,900	15%	60,814,630	15%
	<u>\$399,456,670</u>	<u>100%</u>	<u>\$400,315,770</u>	<u>100%</u>
Tax Rate per \$1,000 of Assessed Valuation	\$43.50		\$43.40	

**Note 8 - Receivables**

Receivables at June 30, 2003, consisted of property taxes, accounts, 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.

**Marietta City School District, Ohio**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2003

A summary of principal items of intergovernmental receivables follows:

	<u>Amounts</u>
<b>Governmental Activities</b>	
CAFS Reimbursement	\$45,688
IDEA-B	36,540
Title I	121,996
Drug Free Schools	5,981
Title II-A	40,020
Title V	5,758
Charges for Services	14,588
Other	<u>623</u>
Total	<u><u>\$271,194</u></u>

**Note 9 - Capital Assets**

Capital asset activity for the fiscal year ended June 30, 2003, was as follows:

	<u>Balance</u> <u>6/30/2002</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>6/30/2003</u>
Capital Assets:				
Capital Assets not being depreciated:				
Land and Land Improvements	\$959,094	\$0	\$0	\$959,094
Total Capital Assets not being Depreciated	<u>959,094</u>	<u>0</u>	<u>0</u>	<u>959,094</u>
Depreciable Capital Assets:				
Buildings and Improvements	10,884,380	0	0	10,884,380
Furniture and Equipment	4,864,766	377,906	(52,304)	5,190,368
Vehicles	1,695,917	73,746	0	1,769,663
Total Capital Assets being Depreciated	<u>17,445,063</u>	<u>451,652</u>	<u>(52,304)</u>	<u>17,844,411</u>
Less Accumulated Depreciation				
Buildings and Improvements	(5,831,570)	(182,099)	0	(6,013,669)
Furniture and Equipment	(3,909,095)	(304,671)	52,304	(4,161,462)
Vehicles	(1,192,999)	(71,656)	0	(1,264,655)
Total Accumulated Depreciation	<u>(10,933,664)</u>	<u>(558,426) *</u>	<u>52,304</u>	<u>(11,439,786)</u>
Total Capital Assets being Depreciated, Net	<u>6,511,399</u>	<u>(106,774)</u>	<u>0</u>	<u>6,404,625</u>
Capital Assets, Net	<u><u>\$7,470,493</u></u>	<u><u>(\$106,774)</u></u>	<u><u>\$0</u></u>	<u><u>\$7,363,719</u></u>

**Marietta City School District, Ohio**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2003

\* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$194,179
Special	38,283
Vocational	10,360
Adult/Continuing	1,309
Support Services:	
Pupil	10,177
Instructional Staff	85,500
Administration	39,823
Fiscal	3,446
Business	1,057
Operation and Maintenance of Plant	34,735
Pupil Transportation	69,299
Central	9,080
Food Service Operations	36,498
Extracurricular Activities	24,680
	<hr/>
Total Depreciation Expense	<u>\$558,426</u>

The amount of fully depreciated assets at June 30, 2003, is \$7,067,679.

**Note 10 - Risk Management**

***A. Property and Liability***

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2003, the School District contracted with Utica National Insurance Group for general liability, vehicle, and property insurance. Coverage provided by the Utica National Insurance Group is as follows:

Building and Contents-replacement cost (\$5,000 deductible)	\$46,903,600
Boiler and Machinery (\$5,000 deductible)	46,903,600
Inland Marine:	
Cameras and audio-visual equipment (\$250 deductible)	50,000
Signs (\$250 deductible)	30,000
Music Instruments and Band Uniforms (\$250 deductible)	500,000
Computers per Building (\$100 deductible)	
Hardware	50,000
Software	10,000
Extra Expense	10,000
Miscellaneous School Equipment and Property (\$250 deductible)	500,000
Valuable Papers & Records per Building (\$100 deductible)	100,000
Accounts Receivable (no deductible)	50,000

## Marietta City School District, Ohio

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2003

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Miscellaneous School Equipment (\$250 deductible)	\$500,000
Crime (no deductible) -	
Public Employee Dishonesty	100,000
Money and Securities –	
Inside Premises – Per Occurrence	25,000
Outside Premises – Per Messenger	25,000
Forgery or Alteration	100,000
Automobile Liability (no deductible):	
Bodily Injury and Property Damage – combined single limit	1,000,000
Medical Payments – each person	5,000
Hired Auto Liability	1,000,000
Non-owned Auto Liability	1,000,000
Hired Car Physical Damage	50,000
General Liability (no liability):	
Each Occurrence	1,000,000
Aggregate Limit	3,000,000
Medical Expense Limit – per person/accident	5,000
Employee Benefits Liability (\$1,000 deductible):	
Per Claim	1,000,000
Aggregate Limit	3,000,000
Educators Legal Liability (\$5,000 deductible):	
Per Claim	1,000,000
Aggregate Limit	3,000,000
Umbrella:	
Each Occurrence	10,000,000
Aggregate Limit	10,000,000
Retention	10,000

Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There has been no significant reduction in insurance coverage from coverage in fiscal year 2003.

### ***B. Workers' Compensation***

For fiscal year 2003, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (see Note 17). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control, and actuarial services to the GRP.

**Marietta City School District, Ohio**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2003

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***C. Employee Medical Benefits***

Medical, dental, and vision insurance is offered to employees through a self-insurance internal service fund. Monthly premiums for the cost of claims are remitted to the fiscal agent who in turn pays the claims on the School District's behalf. The claims liability of \$504,928 reported in the internal service fund at June 30, 2003, is based on an estimate provided by the third party administrator and the requirements of Governmental Accounting Standards Board Statement No. 30, "Risk Financing Omnibus", which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses.

Changes in claims activity for the past two fiscal years are as follows:

	Balance at Beginning of Year	Current Year Claims	Claims Payments	Balance at End of Year
2002	\$310,000	\$2,439,694	\$2,424,694	\$325,000
2003	325,000	3,446,608	3,266,680	504,928

**Note 11 - Employee Benefits**

***A. Compensated Absences***

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees and administrators who are contracted to work 260 days per year earn ten 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 and administrators who work less than 260 days per year do not earn vacation time.

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 260 days for all personnel. Upon retirement, certified employees receive payments for one-third of the total sick leave accumulated and classified employees receive fifty percent of their total sick leave accumulated (payments will not exceed 75 days total).

***B. Insurance***

The School District provides life insurance and accidental death and dismemberment insurance to all employees with a minimum of a half-time position through Prudential Insurance Company.

**Marietta City School District, Ohio**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2003

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**Note 12 - Defined Benefit Pension Plans**

***A. State Teachers Retirement System***

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

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

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

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

The School District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2003, 2002, and 2001, were \$1,493,006, \$989,315, and \$587,547, respectively; 84.66 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001. Contributions to the DC and Combined Plans for fiscal year 2003 were \$472 made by the School District and \$6,971 made by the plan members.



## **Marietta City School District, Ohio**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2003

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### ***B. School Employees Retirement System***

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

Plan members are required to contribute 9 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2002, 5.46 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2003, 2002, and 2001, were \$283,006, \$179,401, and \$109,433, respectively; 58.29 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001.

### ***C. Social Security System***

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2003, four members of the Board of Education elected Social Security. The Board's liability is 6.2 percent of wages paid.

### **Note 13 - Postemployment Benefits**

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

All STRS Ohio benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2003, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$114,847 for fiscal year 2003.

**Marietta City School District, Ohio**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2003

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

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2003, employer contributions to fund health care benefits were 5.83 percent of covered payroll, a decrease of 2.71 percent from fiscal year 2002. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2003, the minimum pay was established at \$14,500. For the School District, the amount contributed to fund health care benefits during the 2003 fiscal year equaled \$227,312.

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

**Note 14 – Capital Leases – Lessee Disclosure**

In prior fiscal years, the School District entered into capitalized leases for copier equipment. Each 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. Capital lease payments are reflected as debt service expenditures on the statement of revenues, expenditures, and changes in fund balances for the governmental funds. Principal payments in 2003 were \$11,998.

	<u>Governmental Activities</u>
Property under Capital Lease	\$51,090
Less Accumulated Depreciation	<u>(35,641)</u>
Total June 30, 2003	<u><u>\$15,449</u></u>

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2003.

**Marietta City School District, Ohio**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2003

<u>Fiscal Year</u>	<u>Amount</u>
2004	\$2,614
Less: Amount Representing Interest	<u>(41)</u>
Present Value of Net Minimum Lease Payments	<u><u>\$2,573</u></u>

**Note 15 - Long Term Obligations**

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

	Principal Outstanding 6/30/02	Additions	Reductions	Principal Outstanding 6/30/03	Amounts Due in One Year
<b>Governmental Activities</b>					
1993 School Improvement Bonds - 4.4%-7.3%	\$5,145,000	\$0	\$5,145,000	\$0	\$0
2002 School Improvement Bonds:					
Serial Bonds - 2%-2.75%	0	3,705,000	0	3,705,000	895,000
Original Issue of Capital Appreciation Bonds - 3.1%	0	690,000	0	690,000	0
Accretion on Capital Appreciation Bonds	0	170,136	0	170,136	0
Deferred amount on Refunding	0	(109,661)	(10,966)	(98,695)	0
Serial Bond Premium	0	35,767	3,577	32,190	0
Total General Obligation Bonds	<u>5,145,000</u>	<u>4,491,242</u>	<u>5,137,611</u>	<u>4,498,631</u>	<u>895,000</u>
Loan Payable - 0%	60,000	0	20,000	40,000	20,000
Capital Leases Payable	14,571	0	11,998	2,573	2,573
Compensated Absences Payable	<u>2,647,269</u>	<u>373,239</u>	<u>601,039</u>	<u>2,419,469</u>	<u>121,363</u>
Total Governmental Activities Long-Term Liabilities	<u><u>\$7,866,840</u></u>	<u><u>\$4,864,481</u></u>	<u><u>\$5,770,648</u></u>	<u><u>\$6,960,673</u></u>	<u><u>\$1,038,936</u></u>

Capital leases will be paid from the General Fund. Compensated absences will be paid from the fund from which the employees' salaries are paid which includes the General Fund and Auxiliary Services, Adult Basic Education, Title IDEA-B, Title I, and Title II-A Special Revenue Funds.

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

On December 1, 2002, the School District issued \$4,690,000 in general obligation bonds, with a discount of \$295,000, to retire \$4,395,000 of outstanding school improvement bonds. An analysis of this information follows:

**Marietta City School District, Ohio**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2003

	School
	<u>Improvement Bonds</u>
Outstanding at 6/30/02	\$5,145,000
Principal Payments	(750,000)
Amount Refunded	<u>\$4,395,000</u>

\$4,504,661 was paid to bondholders on January 2, 2003, to retire the 1993 school improvement bonds. The current refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$109,661. This difference, reported as a deduction from bonds payable, is being charged to interest through fiscal year 2008. The School District decreased its total debt service payments by \$251,650 as a result of the current refunding. The School District also incurred an economic gain (difference between the present values of the old and new debt service payments) of \$237,973.

The refunding bonds issue included serial and capital appreciation bonds in the amount of \$3,705,000 and \$690,000, respectively. The bonds are being retired from the Bond Retirement debt service fund. The serial general obligation bonds were sold at a premium of \$35,767 and will be amortized over the term of the bonds. Issuance costs associated with the refunding bonds were \$80,960 and will be amortized over the term of the bonds.

The refunding bonds are not subject to redemption prior to stated maturity.

The capital appreciation bonds were sold at a premium of \$154,854. The capital appreciation bonds will mature in fiscal year 2008. The maturity amount of the bonds is \$985,000. For the fiscal year 2003, \$15,282 was accreted for a total bond value of \$860,136.

The refunding bonds are not subject to redemption prior to stated maturity.

The overall debt margin of the School District as of June 30, 2003, was \$31,633,419, with an unvoted debt margin of \$400,316.

Principal and interest requirements to retire the general obligation debt outstanding at June 30, 2003, were as follows:

Fiscal Year Ending	Serial		Capital Appreciation	
	Principal	Interest	Principal	Interest
2004	\$895,000	\$81,600	\$0	\$0
2005	915,000	61,213	0	0
2006	935,000	38,087	0	0
2007	960,000	13,200	0	0
2008	0	0	690,000	295,000
	<u>\$3,705,000</u>	<u>\$194,100</u>	<u>\$690,000</u>	<u>\$295,000</u>

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

**Marietta City School District, Ohio**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2003

**Note 16 – Interfund Balances And Transfers**

Interfund balances at June 30, 2003, consisted of the following for services provided by the General Fund:

	Receivables	Payables
General Fund	\$47,472	\$0
Special Revenue Funds:		
Lunchroom	0	387
Public School Support	0	507
Title II-A	0	2,964
IDEA-B	0	36,540
Title I	0	6,394
DPIA	0	680
Total Special Revenue Funds	0	47,472
Total All Funds	\$47,472	\$47,472

During the year, the General Fund transferred \$94,876 to the Athletic and Music Special Revenue Fund to reduce a deficit fund balance. During the year, the Eisenhower Special Revenue Fund transferred \$775 of unexpended grant monies to the Title II-A Special Revenue Fund.

**Note 17 - Jointly Governed Organizations**

***A. Southeastern Ohio Voluntary Education Cooperative (SEOVEC)***

SEOVEC was created as a regional council of governments pursuant to State statutes. SEOVEC is a computer consortium formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. SEOVEC has 38 participants consisting of 30 school districts and 8 educational service centers. SEOVEC is governed by a governing board which is selected by the member districts. SEOVEC possesses its own budgeting and taxing authority. During fiscal year 2003, the School District paid \$91,282 to SEOVEC. To obtain financial information write to the Southeastern Ohio Voluntary Education Cooperative, Bobbi Weidner, Treasurer, at 221 North Columbus Road, Athens, Ohio 45701.

***B. Washington County Career Center***

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

## **Marietta City School District, Ohio**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2003

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### ***C. Coalition of Rural and Appalachian Schools***

The Coalition of Rural and Appalachian Schools is a jointly governed organization including over 100 hundred school districts in southeastern Ohio. The Coalition is operated by a Board which is composed of fourteen members. The board members are composed of one superintendent from each county elected by the school districts within that county. The Council provides various in-service for school district administrative personnel; gathers of data regarding conditions of education in the region; cooperates with other professional groups to assess and develop programs designed to meet the needs of member districts; and provides staff development programs for school district personnel. The Council is not dependent on the continued participation of the School District and the School District does not maintain an equity interest in or financial responsibility for the Council. The School District's membership fee was \$300 for fiscal year 2003.

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

SEOSERRC is a special education service center which selects its own board, adopts its own budget and receives direct Federal and State grants for its operation. The jointly-governed organization was formed for the purpose of initiating, expanding and improving special education programs and services for children with disabilities and their parents. SEOSERRC is governed by a board composed of superintendents of participating schools, parents of children with disabilities, representatives of chartered nonpublic schools, representatives of county boards of MR/DD, Ohio University, and the Southeast Regional Professional Development Center whose terms rotate every year. The degree of control exercised by any participating school district is limited to its representation on the Board. During fiscal year 2003, the School District paid \$7,817 to SEOSERRC. Financial information can be obtained by contacting Bryan Swann, Treasurer, at the Athens-Meigs Educational Service Center, 507 Richland Avenue, Suite 108, Athens, Ohio 45701.

## **Note 18 - Insurance Purchasing Pool**

### ***Ohio School Boards Association Workers' Compensation Group Rating Plan***

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

## **Note 19 - Set asides**

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 fiscal year must be held in cash at fiscal year end and carried forward to be used for the same purposes in future fiscal years. In prior fiscal years, the School District was also required to set aside money for budget stabilization. At June 30, 2003, only the unspent portion of certain workers' compensation refunds continues to be set-aside.

**Marietta City School District, Ohio**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2003

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

	Budget Stabilization Reserve	Capital Improvements Reserve	Textbooks Instructional Materials Reserve
Set-aside Reserve Balance as of June 30, 2002	\$80,661	\$214,614	\$187,869
Current Year Set-aside Requirement	0	406,223	406,223
Current Year Offsets	0	0	0
Qualifying Disbursements	0	(414,325)	(354,315)
Total	<u>\$80,661</u>	<u>\$206,512</u>	<u>\$239,777</u>
Set-aside Balance Carry Forward to Future Fiscal Years	<u>\$80,661</u>	<u>\$206,512</u>	<u>\$239,777</u>

The total reserve balance for the three set-asides at the end of the fiscal year was \$526,950.

**Note 20 – State School Funding Decision**

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

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

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

**Note 21 - Contingencies**

***A. Grants***

The School District received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2003.

***B. Litigation***

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

**Marietta City School District, Ohio**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2003

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**Note 22 – Subsequent Events**

On February 23, 2004, the General Fund had a deficit cash balance of \$354,118. Accordingly, on that date, the Board of Education authorized the Chief Fiscal Officer to borrow \$400,000 from the Bond Retirement Fund to cover general operating expenses, including payroll for the General Fund. Repayment is expected to be completed by April 30, 2004. Interest of 1.1 percent will be due when the debt is repaid.

On March 2, 2004, the School District had on the ballot a 7.5 mill operating levy. Since the levy failed, the future financial condition of the School District is compromised.



**MARIETTA CITY SCHOOL DISTRICT  
WASHINGTON COUNTY**

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

<b>FEDERAL GRANTOR</b> <i>Pass-through Grantor</i> Program Title	Federal CFDA Number	Pass-through Entity Number	Receipts	Noncash Receipts	Disbursements	Noncash Disbursements
<b>UNITED STATES DEPARTMENT OF AGRICULTURE</b>						
<i>Passed through Ohio Department of Education:</i>						
Nutrition Cluster:						
Food Donation	10.550	N/A	\$	\$ 43,093	\$	\$ 43,093
School Breakfast Program	10.553	05PU-2002 05PU-2003	4,941 36,915		4,941 36,915	
Total School Breakfast Program			<u>41,856</u>	<u>0</u>	<u>41,856</u>	<u>0</u>
National School Lunch Program	10.555	LLP4-2002 LLP4-2003	27,917 180,800		27,917 180,800	
Total National School Lunch Program			<u>208,717</u>	<u>0</u>	<u>208,717</u>	<u>0</u>
Total Nutrition Cluster			<u>250,573</u>	<u>43,093</u>	<u>250,573</u>	<u>43,093</u>
Total United States Department of Agriculture			250,573	43,093	250,573	43,093
<b>UNITED STATES DEPARTMENT OF EDUCATION</b>						
<i>Passed through Ohio Department of Education:</i>						
Adult Education - State Grant Program	84.002	ABS1-2002 ABS1-2002C ABS1-2003	80,104 945 82,550		12,300 945 82,550	
Total Adult Education - State Grant Program			<u>163,599</u>	<u>0</u>	<u>95,795</u>	<u>0</u>
Title I Grants to Local Educational Agencies	84.010	C1S1-2002 C1S1-2003 C1SD-2002 C1SD-2003 C1SS-2002P	6,661 585,933 (7,726) 21,587 1,627		112,727 554,871 2,313 27,903 2,324	
Total Title I Grants to Local Educational Agencies			<u>608,082</u>	<u>0</u>	<u>700,138</u>	<u>0</u>
Special Education - Grants to States	84.027	6BSF-2002P 6BSF-2003P	1,440 333,041		49,209 296,095	
Total Special Education - Grants to States			<u>334,481</u>	<u>0</u>	<u>345,304</u>	<u>0</u>
Safe and Drug-Free Schools and Communities - State Grants	84.186	DRS1-2001 DRS1-2002 DRS1-2003	530 2,277 18,172		530 6,167 15,437	
Total Safe and Drug-Free Schools and Communities - State Grants			<u>20,449</u>	<u>0</u>	<u>22,134</u>	<u>0</u>
Education for Homeless Children and Youth	84.196	HCS1-2001 HCS1-2002 HCS1-2003	129 (958) 31,506		129 7,222 28,869	
Total Education for Homeless Children and Youth			<u>30,548</u>	<u>0</u>	<u>36,220</u>	<u>0</u>
Goals 2000 - State and Local Systemic Improvement Grants	84.276	G2S9-2001 G2S9-2002	178 21,929		178 21,929	
Total Goals 2000 - State and Local Systemic Improvement Grants			<u>0</u>	<u>0</u>	<u>22,107</u>	<u>0</u>
Eisenhower Professional Development State Grants	84.281	MSS1-2001 MSS1-2002	695 (512)		695 (102)	
Total Eisenhower Professional Development State Grants			<u>(512)</u>	<u>0</u>	<u>593</u>	<u>0</u>
Innovative Education Program Strategies	84.298	C2S1-2002 C2S1-2003	(4,681) 19,607		817 17,706	
Total Innovative Education Program Strategies			<u>14,926</u>	<u>0</u>	<u>18,523</u>	<u>0</u>
Education Technology State Grants	84.318	TJS1-2003	17,251		16,872	
Advanced Placement Program	84.330	AVS1-2001	1,000		1,000	
Class Size Reduction	84.340	CRS1-2001	(5,248)		20,274	
School Renovation, IDEA, and Technology	84.352A	ATS1-2002 ATS2-2002 ATS3-2002	(590) 14,412 4,488		590 14,412 4,148	
Total School Renovation, IDEA, and Technology			<u>18,310</u>	<u>0</u>	<u>19,150</u>	<u>0</u>
Improving Teacher Quality State Grants	84.367	TRS1-2003	154,855		150,627	
Total United States Department of Education			1,357,741	0	1,448,737	0

**MARIETTA CITY SCHOOL DISTRICT  
WASHINGTON COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2003  
(Continued)**

<b>FEDERAL GRANTOR</b> <i>Pass-through Grantor</i> Program Title	Federal CFDA Number	Pass-through Entity Number	Receipts	Noncash Receipts	Disbursements	Noncash Disbursements
<b>FEDERAL EMERGENCY MANAGEMENT AGENCY</b>						
<i>Passed through Ohio Emergency Management Agency:</i>						
Public Assistance Grants - Emergency Snow Removal	83.544	DR-1453-OH	\$ 3,889	\$	\$ 3,889	\$
Total Federal Emergency Management Agency			3,889	0	3,889	0
<b>UNITED STATES DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>						
<i>Passed through Ohio Department of Mental Retardation and Developmental Disabilities:</i>						
<i>Medical Assistance Program -</i>						
Community Alternative Funding System (CAFS)	93.778	N/A	84,235		84,235	
<i>Passed through Washington County Ohio Department of Job and Family Services:</i>						
Temporary Assistance for Needy Families	93.558	N/A	10,000		24,122	
<i>Passed through Washington-Morgan Community Action Program:</i>						
Temporary Assistance for Needy Families	93.558	N/A	6,500		6,199	
Total Temporary Assistance for Needy Families			16,500	0	30,321	0
Total United States Department of Health and Human Services			100,735	0	114,556	0
<b>CORPORATION FOR NATIONAL AND COMMUNITY SERVICE</b>						
<i>Passed through Ohio Department of Education:</i>						
Learn and Serve America	94.004	SVS2-2003	3,000	0	2,851	0
Total Corporation for National and Community Service			3,000	0	2,851	0
<b>Total Federal Awards Receipts and Expenditures</b>			<b>\$ 1,715,938</b>	<b>\$ 43,093</b>	<b>\$ 1,820,606</b>	<b>\$ 43,093</b>

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

**MARIETTA CITY SCHOOL DISTRICT  
WASHINGTON COUNTY**

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

**NOTE A – SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Schedule of Federal Awards Receipts and Expenditures (the Schedule) summarizes the 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**

During 2003, the Ohio Department of Education (ODE) authorized the School District to transfer unneeded funds to other grants as well as carryover monies from the prior fiscal year to the current fiscal year. Authorized transfers and carryover monies are shown as a reduction of federal revenues in the program that the transfer was made from and increased federal revenue in the program that received the transfer or carryover. Also during 2003, the School District refunded to the Ohio Department of Education monies that were not expended during the period of availability. Refunds to the Ohio Department of Education are shown as a reduction of federal revenue in the accompanying Schedule. A detailed listing of the transfers/carryovers and refunds are as follows:

CFDA Number	Program Title	Pass- Through Entity Number	Transfers Out	Transfers In	Refunds
84.002	Adult Basic Education	AB-S1-02	\$ 945	\$	\$
84.002	Title I Grants to Local Educational Agencies	AB-S1-02C		945	
84.010	Title I Grants to Local Educational Agencies	C1-S1-02	67,024		
84.010	Title I Grants to Local Educational Agencies	C1-S1-03		67,024	
84.010	Title I Grants to Local Educational Agencies	C1-SD-02	8,929		
84.010	Title I Grants to Local Educational Agencies	C1-SD-03		8,929	
84.186	Safe and Drug-Free Schools and Communities - State Grants	DR-S1-02	2,277		
84.186	Safe and Drug-Free Schools and Communities - State Grants	DR-S1-03		2,277	
84.196	Education for Homeless Children and Youth	HC-S1-02	1,289		
84.196	Education for Homeless Children and Youth	HC-S1-03		1,289	
84.281	Eisenhower Professional Development State Grants	MS-S1-02	775		
84.367	Title II, Part A - Teacher and Principal Training and Recruiting	TR-S1-03		775	
84.298	Innovative Program Strategies	C2-S1-02	4,681		
84.298	Innovative Program Strategies	C2-S1-03		4,681	
		Subtotal	85,920	85,920	

**MARIETTA CITY SCHOOL DISTRICT  
WASHINGTON COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2003  
(Continued)**

**NOTE C – TRANSFERS (Continued)**

CFDA Number	Program Title	Pass- Through Entity Number	Transfers Out	Transfers In	Refunds
84.340	Class Size Reduction	CR-S1-02	10,048		
84.367	Title II, Part A - Teacher and Principal Training and Recruiting	TR-S1-03		10,048	
84.352A	School Renovation, IDEA, and Technology	AT-S1-02			590
		Subtotal	<u>10,048</u>	<u>10,048</u>	<u>590</u>
		Total	<u>\$ 95,968</u>	<u>\$ 95,968</u>	<u>\$ 590</u>



## **Auditor of State Betty Montgomery**

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Marietta City School District, Washington County, Ohio (the School District), as of and for the year ended June 30, 2003, which collectively comprise the School District's basic financial statements and have issued our report thereon dated March 1, 2004, wherein we noted the School District implemented Governmental Accounting Standards Board Statements 34, 37, 38 and 41 and Interpretation 6. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### **Compliance**

As part of obtaining reasonable assurance about whether the School District's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the School District in a separate letter dated March 1, 2004.

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

In planning and performing our audit, we considered the School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the School District in a separate letter dated March 1, 2004.

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

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

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

**Betty Montgomery**  
Auditor of State

March 1, 2004



**Auditor of State  
Betty Montgomery**

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

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

To the Board of Education:

**Compliance**

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

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

In our opinion, the School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003. However, we noted a certain instance of noncompliance that does not require inclusion in this report that we have reported to the management of the School District in a separate letter dated March 1, 2004.

### **Internal Control over Compliance**

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over federal compliance that do not require the inclusion in this report, that we have reported to management of the School District in a separate letter dated March 1, 2004.

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



**Betty Montgomery**  
Auditor of State

March 1, 2004



**MAREITTA CITY SCHOOL DISTRICT  
WASHINGTON COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
FOR THE YEAR ENDED JUNE 30, 2003**

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

<b>(d)(1)(i)</b>	<b>Type of Financial Statement Opinion</b>	Unqualified
<b>(d)(1)(ii)</b>	<b>Were there any material control weakness conditions reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(ii)</b>	<b>Were there any other reportable conditions reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(iii)</b>	<b>Was there any reported material noncompliance at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(iv)</b>	<b>Were there any material internal control weakness conditions reported for major federal programs?</b>	No
<b>(d)(1)(iv)</b>	<b>Were there any other reportable internal control weakness conditions reported for major federal programs?</b>	No
<b>(d)(1)(v)</b>	<b>Type of Major Programs' Compliance Opinion</b>	Unqualified
<b>(d)(1)(vi)</b>	<b>Are there any reportable findings under §.510?</b>	No
<b>(d)(1)(vii)</b>	<b>Major Programs (list):</b>	Special Education – Grants to States – CFDA #84.027  Nutrition Cluster: Food Donation – CFDA #10.550 School Breakfast Program – CFDA #10.553 National School Lunch Program – CFDA# 10.555
<b>(d)(1)(viii)</b>	<b>Dollar Threshold: Type A/B Programs</b>	Type A: > \$300,000 Type B: all others
<b>(d)(1)(ix)</b>	<b>Low Risk Auditee?</b>	Yes

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

None.

**3. FINDINGS FOR FEDERAL AWARDS**

None.

**MARIETTA CITY SCHOOL DISTRICT  
WASHINGTON COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
OMB CIRCULAR A -133 §.315 (b)  
FOR THE YEAR ENDED JUNE 30, 2003**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b>Explain:</b>
2002-11084-001	A material noncompliance citation was issued under Ohio Rev. Code Section 5705.10 for negative fund balances.	No	Partially Corrected:  This item is no longer a significant issue. It is reported in the current year Management Letter.



**Auditor of State  
Betty Montgomery**

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**MARIETTA CITY SCHOOL DISTRICT**

**WASHINGTON COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
APRIL 20, 2004**